State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

Prepared By:

Department of Administration

Janet Kelly, Director

Administrative Financial Services Division

Paul Christofferson, CPA, Administrator

Accounting Bureau

Julie Feldman, Bureau Chief

Accounting Principles/Financial Reporting Section

Jenifer Alger, Accountant

Janet Atchison, Accountant

Matthew McBurnett, Accountant

Susan Van Norden, CA

Operations Section

Mark Curtis, Computer Applications Software Engineer

Linda Gaughan, Accountant, Supervisor

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Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2005, which collectively comprise the state's basic financial statements, as follows:

Statement of Net Assets
Statement of Activities
Balance Sheet - Governmental Funds
Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities
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Statement of Cash Flows - Proprietary Funds
Statement of Fiduciary Net Assets - Fiduciary Funds
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
Combining Statement of Net Assets - Component Units
Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents 0.06 and 1.38 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents 0.06 and 0.12 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units which represent 10.90 and 5.64 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform

the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund and the aggregate remaining fund information of the state of Montana, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Budgetary Comparison Schedule listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The Combining Statements and Individual Fund Statements and Schedules listed in the table of contents are for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

At July 1, 2005, four retirement systems, Public Employees' (PERS-DBRP), Teachers' (TRS), Game Wardens' and Peace Officers' (GWPORS) and, Sheriffs' (SRS) retirement systems were not actuarially sound with an Unfunded Actuarially Accrued Liability (UAAL) totaling $522.6 million, $903.3 million, $5.5 million and $10.9 million, respectively. The maximum UAAL to comply with the amortization period of 30 years at January 1, 2006, is $266.4 million for PERS-DBRP, $463 million for TRS, $4.3 million for GWPORS, and $(3.6) million for SRS. The negative $3.6 million for SRS indicates that the current employer and employee contributions do not cover the current costs of the system.

In accordance with *Government Auditing Standards*, we have issued our report dated November 23, 2005, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. It is included in the Legislative Auditor's separately issued report (05-01) on the State's basic financial statements.

The Introductory and Statistical Section listed in the table of contents were not audited by us, and accordingly, we express no opinion on them.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 23, 2005

State of Montana

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For the Fiscal Year Ended June 30, 2005

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STATEMENT OF NET ASSETS
JUNE 30, 2005
(expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 901,086	$ 269,424	$ 1,170,510	$ 201,489
Receivables (net)	283,227	31,621	314,848	68,669
Due from primary government	-	-	-	1,868
Due from other governments	114,487	304	114,791	20,905
Due from component units	1,765	1,982	3,747	1,562
Internal balances	(8,659)	8,659	-	-
Inventories	26,685	6,914	33,599	4,531
Advances to component units	8,881	5,264	14,145	-
Long-term loans/notes receivable	226,077	35,951	262,028	689,079
Equity in pooled investments (Note 3)	1,315,888	-	1,315,888	17,092
Investments (Note 3)	357,894	9,155	367,049	1,228,384
Securities lending collateral (Note 3)	172,467	410	172,877	121,561
Deferred charges	2,682	1,421	4,103	7,434
Capital assets (net) (Note 5)	2,805,658	9,670	2,815,328	499,213
Other assets	4,669	1,913	6,582	18,225
Total assets	6,212,807	382,688	6,595,495	2,880,012
LIABILITIES				
Accounts payable	351,321	7,271	358,592	54,243
Lottery prizes payable	-	2,694	2,694	-
Due to primary government	-	-	-	3,747
Due to other governments	14,632	879	15,511	8,525
Due to component units	1,867	1	1,868	1,562
Advances from primary government	-	-	-	14,145
Deferred revenue	23,707	2,742	26,449	24,149
Amounts held in custody for others	25,403	515	25,918	18,970
Securities lending liability (Note 3)	172,467	410	172,877	121,561
Other liabilities	866	-	866	9,554
Short-term debt (Note 11)	-	84,280	84,280	-
Long-term liabilities (Note 11):				
Due within one year	84,972	9,890	94,862	162,044
Due in more than one year	444,855	7,150	452,005	1,518,223
Total liabilities	1,120,090	115,832	1,235,922	1,936,723

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in capital assets, net of related debt	$ 2,528,808	$ 9,670	$ 2,538,478	$ 274,508
Restricted for:				
Transportation	52,845	-	52,845	-
Fish, wildlife, and parks	64,695	-	64,695	-
Federal grants	27,165	-	27,165	21
Debt service/construction	7,695	-	7,695	32,664
Unemployment compensation	-	207,157	207,157	-
Funds held as permanent investments:				
Nonexpendable	1,329,791	-	1,329,791	180,068
Expendable	67,078	-	67,078	-
Housing authority	-	-	-	137,879
Resource/environment	545,612	-	545,612	-
Other purposes	64,304	33,357	97,661	81,520
Unrestricted	404,724	16,672	421,396	236,629
Total net assets	$ 5,092,717	$ 266,856	$ 5,359,573	$ 943,289

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	$ 305,819	$ 49,637	$ 44,672	$ 767	$ (210,743)
Public safety/corrections	258,610	146,746	91,630	-	(20,234)
Transportation	281,074	38,101	35,596	312,630	105,253
Health/social services	1,182,281	31,467	860,300	-	(290,514)
Education/cultural	900,542	30,499	186,152	-	(683,891)
Resource/recreation/environment	197,539	121,539	94,948	6,037	24,985
Economic development/assistance	144,777	25,995	77,728	-	(41,054)
Interest on long-term debt	14,375	-	-	-	(14,375)
Total governmental activities	3,285,017	443,984	1,391,026	319,434	(1,130,573)
Business-type activities:					
Unemployment Insurance	75,291	72,866	18,772	-	16,347
Liquor Stores	45,503	52,081	-	-	6,578
State Lottery	27,681	33,815	-	-	6,134
Economic Development Bonds	2,630	5	2,617	-	(8)
Hail Insurance	3,153	7,404	158	-	4,409
General Government Services	50,329	14,244	36,407	159	481
Prison Funds	5,268	5,233	-	-	(35)
MUS Group Insurance	40,524	47,739	410	-	7,625
MUS Workers Compensation	2,842	2,978	69	-	205
Total business-type activities	253,221	236,365	58,433	159	41,736
Total primary government	$ 3,538,238	$ 680,349	$ 1,449,459	$ 319,593	$ (1,088,837)
Component units:					
Housing Authority	$ 42,460	$ 219	$ 48,636	$ -	$ 6,395
Facility Finance Authority	276	280	62	-	66
State Compensation Insurance (New Fund)	202,930	189,430	-	-	(13,500)
State Compensation Insurance (Old Fund)	10,555	-	-	-	(10,555)
Montana State University	372,205	149,688	148,435	4,554	(69,528)
University of Montana	293,932	129,659	108,069	2,378	(53,826)
Total component units	$ 922,358	$ 469,276	$ 305,202	$ 6,932	$ (140,948)

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Changes in net assets:				
Net (expense) revenue	$ (1,130,573)	$ 41,736	$ (1,088,837)	$ (140,948)
General revenues:				
Taxes:				
Property	186,229	-	186,229	-
Fuel	190,897	-	190,897	-
Natural resource	191,723	-	191,723	-
Individual income	729,459	-	729,459	-
Corporate income	101,834	-	101,834	-
Other	257,526	15,624	273,150	-
Unrestricted grants and contributions	-	-	-	106
Settlements	28,313	-	28,313	-
Unrestricted investment earnings	52,792	190	52,982	55,997
Payment from State of Montana	-	-	-	138,437
Gain on sale of capital assets	34	-	34	-
Miscellaneous	4,358	2,945	7,303	11
Contributions to term and permanent endowments	-	-	-	13,208
Transfers	29,871	(29,871)	-	-
Total general revenues, contributions, and transfers	1,773,036	(11,112)	1,761,924	207,759
Change in net assets	642,463	30,624	673,087	66,811
Total net assets - July 1 - as previously reported	4,331,094	236,307	4,567,401	874,008
Prior period adjustments (Note 2)	119,160	(75)	119,085	2,470
Total net assets - July 1 - as restated	4,450,254	236,232	4,686,486	876,478
Total net assets - June 30	$ 5,092,717	$ 266,856	$ 5,359,573	$ 943,289

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund
This fund is the principal operating fund of the State. It accounts for all governmental financial resources, except for those required to be accounted for in another fund.

State Special Revenue Fund
This fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

Federal Special Revenue Fund
This fund accounts for activities funded from federal sources used in the operation of state government.

Coal Severance Tax Fund
This fund, created by Article IX, Section 5, of the Montana Constitution and administered by the Department of Revenue, receives 50% of all coal tax collections. The principal can be expended only upon affirmative vote by three-fourths of each house of the Legislature.

Land Grant Fund
This fund is used by the Department of Natural Resources and Conservation to account for lands granted to the State for support of public schools and state institutions.

Nonmajor Funds
Nonmajor governmental funds are presented, by fund type, beginning on page 124.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
(expressed in thousands)

		SPECIAL REVENUE		PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
ASSETS							
Cash/cash equivalents (Note 3)	$ 306,333	$ 409,013	$ 39,523	$ 63,721	$ 13,370	$ 31,750	$ 863,710
Receivables (net) (Note 4)	185,653	65,049	7,985	9,439	5,468	5,528	279,122
Interfund loans receivable (Note 12)	19,300	13,365	550	-	-	-	33,215
Due from other governments	2	248	114,235	-	-	-	114,485
Due from other funds (Note 12)	40,020	17,762	617	4	-	589	58,992
Due from component units	539	698	82	76	-	-	1,395
Inventories	2,604	21,999	-	-	-	-	24,603
Equity in pooled investments (Note 3)	-	225,427	-	465,601	433,049	191,811	1,315,888
Long-term loans/notes receivable	30	194,844	297	-	-	30,906	226,077
Advances to other funds (Note 12)	100	14,506	-	44,241	-	2,826	61,673
Advances to component units	-	-	-	8,881	-	-	8,881
Investments (Note 3)	15,480	154,839	2,129	159,389	-	13,159	344,996
Securities lending collateral (Note 3)	-	40,160	-	55,772	51,873	24,430	172,235
Other assets	2,594	1,130	397	-	-	13	4,134
Total assets	$ 572,655	$ 1,159,040	$ 165,815	$ 807,124	$ 503,760	$ 301,012	$ 3,509,406
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	137,459	94,715	84,651	-	5,344	2,102	324,271
Interfund loans payable (Note 12)	-	2,249	28,623	-	-	382	31,254
Due to other governments	1,913	1,135	11,584	-	-	-	14,632
Due to other funds (Note 12)	16,398	27,962	3,180	6,459	-	2,730	56,729
Due to component units	14,793	484	1,296	-	-	3	16,576
Advances from other funds (Note 12)	-	56,667	2,250	-	-	12,371	71,288
Deferred revenue	81,127	24,489	6,419	35	-	10	112,080
Amounts held in custody for others	21,172	3,669	422	-	109	-	25,372
Securities lending liability (Note 3)	-	40,160	-	55,772	51,873	24,430	172,235
Other liabilities	-	133	-	-	-	-	133
Total liabilities	272,862	251,663	138,425	62,266	57,326	42,028	824,570
Fund balances:							
Reserved for:							
Encumbrances	6,718	13,063	1,300	-	-	-	21,081
Inventories	2,604	21,999	-	-	-	-	24,603
Long-term loans/notes receivable	30	187,767	297	-	-	30,906	219,000
Advances to other funds/component units	100	14,506	-	53,122	-	2,826	70,554
Special revenue (Note 14)	-	719,550	27,295	-	-	-	746,845
Debt service	-	-	-	-	-	5,960	5,960
Trust principal (Note 14)	-	-	-	691,736	446,434	205,115	1,343,285
Escheated property	666	-	-	-	-	-	666
Unreserved, designated, reported in nonmajor (Note 1):							
Debt service funds	-	-	-	-	-	8,553	8,553
Unreserved, undesignated	289,675	(49,508)	(1,502)	-	-	-	238,665
Unreserved, undesignated, reported in nonmajor:							
Debt service funds	-	-	-	-	-	(3,097)	(3,097)
Capital projects funds	-	-	-	-	-	8,721	8,721
Total fund balances	299,793	907,377	27,390	744,858	446,434	258,984	2,684,836
Total liabilities and fund balances	$ 572,655	$ 1,159,040	$ 165,815	$ 807,124	$ 503,760	$ 301,012	$ 3,509,406

The notes to the financial statements are an integral part of this statement.

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005
(expressed in thousands)

Total fund balances for governmental funds		$ 2,684,836
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		
Land	354,622	
Land improvements	16,301	
Buildings/improvements	363,438	
Equipment	73,625	
Infrastructure	3,265,389	
Other capital assets	73,581	
Construction in progress	198,464	
Intangible assets	71,493	
Less accumulated depreciation	(1,697,803)	
Total capital assets		2,719,110
Certain tax revenues are earned, but not available and therefore deferred in the funds.		89,338
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		95,301
Deferred issue costs are reported as current expenditures in the funds. These costs are amortized over the life of the bonds and included in govermental activities in the statement of net assets.		2,682
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest	(5,311)	
Lease/installment purchase payable	(1,848)	
Bonds/notes payable (net)	(421,609)	
Compensated absences payable	(68,941)	
Early retirement benefits payable	(55)	
Arbitrage rebate tax payable	(53)	
Other liabilities	(733)	
Total long-term liabilities		(498,550)
Net assets of governmental activities		$ 5,092,717

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

		SPECIAL REVENUE		PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
REVENUES							
Licenses/permits	$ 128,008	$ 116,676	$ -	$ -	$ 188	$ 372	$ 245,244
Taxes:							
Natural resource	80,475	85,703	-	20,170	-	6,242	192,590
Individual income	702,526	1,109	-	-	-	-	703,635
Corporate income	97,915	-	-	-	-	-	97,915
Property	173,636	12,593	-	-	-	-	186,229
Fuel	-	190,885	-	-	-	12	190,897
Other (Note 1)	200,665	54,099	-	-	-	1,828	256,592
Charges for services/fines/forfeits/settlements	32,464	75,759	24,968	-	1	12,043	145,235
Investment earnings	10,635	27,551	474	48,117	34,392	22,768	143,937
Securities lending income	1,436	1,033	-	1,134	1,060	506	5,169
Sale of documents/merchandise/property	393	4,938	2	-	14,699	2,623	22,655
Rentals/leases/royalties	60	1,105	-	-	42,428	130	43,723
Contributions/premiums	-	7,744	-	-	-	-	7,744
Grants/contracts/donations	2,761	25,126	38	-	40	19	27,984
Federal	27,327	11,581	1,464,031	-	-	-	1,502,939
Federal indirect cost recoveries	158	34,211	46,681	-	-	-	81,050
Other revenues	302	3,683	294	-	-	61	4,340
Total revenues	1,458,761	653,796	1,536,488	69,421	92,808	46,604	3,857,878
EXPENDITURES							
Current:							
General government	186,820	93,574	5,621	-	-	7,793	293,808
Public safety/corrections	142,010	41,138	50,413	-	-	5,368	238,929
Transportation	200	212,275	310,547	-	-	-	523,022
Health/social services	280,235	63,484	842,734	-	-	9	1,186,462
Education/cultural	653,850	78,471	172,821	-	-	8	905,150
Resource/recreation/environment	36,862	108,881	56,339	-	4,590	231	206,903
Economic development/assistance	22,646	58,372	65,288	-	-	-	146,306
Debt service:							
Principal retirement	612	430	197	-	-	25,964	27,203
Interest/fiscal charges	122	1,141	29	-	-	12,879	14,171
Capital outlay	1,352	28,079	25,065	-	-	16,355	70,851
Securities lending	1,375	978	-	1,072	1,002	478	4,905
Total expenditures	1,326,084	686,823	1,529,054	1,072	5,592	69,085	3,617,710
Excess of revenue over (under) expenditures	132,677	(33,027)	7,434	68,349	87,216	(22,481)	240,168
OTHER FINANCING SOURCES (USES)							
Bonds issued	-	133,710	-	-	-	1,670	135,380
Refunding bonds issued	-	5,070	-	-	-	25,000	30,070
Bond premium	-	6,654	-	-	-	1,452	8,106
Payment to refunding bond escrow agent	-	-	-	-	-	(31,018)	(31,018)
Inception of lease/installment contract	264	131	122	-	-	-	517
General capital asset sale proceeds	8	158	3	-	-	-	169
Transfers in (Note 12)	71,866	140,591	2,756	3,006	-	55,432	273,651
Transfers out (Note 12)	(44,438)	(39,564)	(14,598)	(46,870)	(77,728)	(21,670)	(244,868)
Total other financing sources (uses)	27,700	246,750	(11,717)	(43,864)	(77,728)	30,866	172,007
Net change in fund balances	160,377	213,723	(4,283)	24,485	9,488	8,385	412,175
Fund balances - July 1 - as previously reported	141,776	694,159	31,396	720,373	436,902	250,590	2,275,196
Prior period adjustments (Note 2)	(2,299)	463	277	-	44	9	(1,506)
Fund balances - July 1 - as restated	139,477	694,622	31,673	720,373	436,946	250,599	2,273,690
Increase (decrease) in inventories	(61)	(968)	-	-	-	-	(1,029)
Fund balances - June 30	$ 299,793	$ 907,377	$ 27,390	$ 744,858	$ 446,434	$ 258,984	$ 2,684,836

The notes to the financial statements are an integral part of this statement.

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2005
(expressed in thousands)

Net change in fund balances - total governmental funds		$ 412,175
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)		
Capital outlay	399,491	
Depreciation expense	(118,720)	
Excess of capital outlay over depreciation expense		280,771
In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.		(4,204)
Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources.		(529)
Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed.		(1,029)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		37,549
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds.The net revenue (expense) of the internal service funds is reported with governmental activities.		21,640
The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:		
Bonds issued	(135,380)	
Refunding bonds issued	(30,070)	
Bond premium	(8,106)	
Payment to refunding bond escrow agent	31,018	
Capital lease financing	(517)	
Principal retirement	27,203	
Issuance costs deferral	947	
Bond issuance costs amortization	(194)	
Bond refunding loss amortization	(693)	
Bond discount amortization	(4)	
Bond premium amortization	306	
Total long-term debt proceeds/repayment		(115,490)

Some expenditures reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(234)	
Compensated absences	1,378	
Early retirement benefits	161	
Arbitrage rebate tax	25	
Other liabilities	10,250	
Total additional expenditures		11,580
Change in net assets of governmental activities		$ 642,463

The notes to the financial statements are an integral part of this statement.

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PROPRIETARY FUND FINANCIAL STATEMENTS

Unemployment Insurance

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

Economic Development Bonds

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Nonmajor Funds

Nonmajor enterprise funds are presented beginning on page 144.

Governmental Activities – Internal Service Funds

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail beginning on page 166.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES --
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 204,133	$ 17,151	$ 48,140	$ 269,424	$ 37,376
Receivables (net) (Note 4)	3,431	10,309	17,827	31,567	3,903
Interfund loans receivable (Note 12)	-	-	9	9	607
Due from other governments	-	-	304	304	2
Due from other funds (Note 12)	-	3,695	136	3,831	5,475
Due from component units	-	1,661	350	2,011	454
Inventories	-	-	6,914	6,914	2,082
Short-term investments (Note 3)	-	1,807	-	1,807	-
Securities lending collateral (Note 3)	-	-	410	410	232
Other current assets	-	-	293	293	535
Total current assets	207,564	34,623	74,383	316,570	50,666
Noncurrent assets:					
Restricted investments	-	4,074	-	4,074	-
Advances to other funds (Note 12)	-	14,013	195	14,208	-
Advances to component units	-	6,644	-	6,644	-
Long-term investments (Note 3)	-	18	3,256	3,274	12,898
Long-term notes/loans receivable	-	34,082	308	34,390	-
Deferred charges	-	1,393	28	1,421	-
Other long-term assets	-	-	1,618	1,618	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	6,098	6,098	2,852
Equipment	-	3	10,061	10,064	183,514
Infrastructure	-	-	884	884	-
Construction in progress	-	-	868	868	3,471
Intangible assets	-	-	661	661	1,157
Less accumulated depreciation	-	(3)	(12,045)	(12,048)	(104,775)
Total capital assets	-	-	9,670	9,670	86,550
Total noncurrent assets	-	60,224	15,075	75,299	99,448
Total assets	207,564	94,847	89,458	391,869	150,114

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES --
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	$ 342	$ 916	$ 6,013	$ 7,271	$ 6,890
Lottery prizes payable	-	-	1,436	1,436	-
Interfund loans payable (Note 12)	-	-	146	146	2,431
Due to other governments	-	-	879	879	-
Due to other funds (Note 12)	65	3	8,967	9,035	2,508
Due to component units	-	-	1	1	22
Deferred revenue	-	-	2,742	2,742	965
Short-term debt (Note 11)	-	84,280	-	84,280	-
Lease/installment purchase payable (Note 10)	-	-	-	-	118
Bonds/notes payable - net (Note 11)	-	1,474	410	1,884	-
Amounts held in custody for others	-	415	100	515	31
Securities lending liability (Note 3)	-	-	410	410	232
Estimated insurance claims (Note 8)	-	-	7,414	7,414	16,264
Compensated absences payable (Note 11)	-	19	573	592	2,470
Total current liabilities	407	87,107	29,091	116,605	31,931
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,258	1,258	-
Advances from other funds (Note 12)	-	-	-	-	4,412
Lease/installment purchase payable (Note 10)	-	-	-	-	738
Bonds/notes payable - net (Note 11)	-	2,434	850	3,284	-
Estimated insurance claims (Note 8)	-	-	3,199	3,199	15,739
Compensated absences payable (Note 11)	-	24	529	553	1,993
Arbitrage rebate tax payable	-	114	-	114	-
Total noncurrent liabilities	-	2,572	5,836	8,408	22,882
Total liabilities	407	89,679	34,927	125,013	54,813
NET ASSETS					
Invested in capital assets, net of related debt	-	-	9,670	9,670	85,694
Restricted for:					
Unemployment Compensation	207,157	-	-	207,157	-
Other Purposes	-	2,504	30,853	33,357	-
Unrestricted	-	2,664	14,008	16,672	9,607
Total net assets	$ 207,157	$ 5,168	$ 54,531	$ 266,856	$ 95,301

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	$ -	$ 5	$ 96,957	$ 96,962	$ 93,911
Investment earnings	10,951	637	863	12,451	859
Securities lending income	-	-	12	12	21
Financing income	-	2,126	-	2,126	-
Contributions/premiums	72,866	-	66,332	139,198	108,940
Grants/contracts/donations	7,821	-	36,211	44,032	-
Taxes	-	-	15,624	15,624	-
Other operating revenues	2,507	-	644	3,151	1,906
Total operating revenues	94,145	2,768	216,643	313,556	205,637
Operating expenses:					
Personal services	-	252	9,480	9,732	35,015
Contractual services	-	32	10,027	10,059	16,913
Supplies/materials	-	3	46,139	46,142	15,763
Benefits/claims	71,789	-	83,452	155,241	81,657
Depreciation	-	1	1,707	1,708	11,276
Amortization	-	-	287	287	654
Utilities/rent	-	41	775	816	8,926
Communications	-	6	1,073	1,079	9,150
Travel	-	4	184	188	397
Repair/maintenance	-	-	429	429	7,473
Grants	-	-	1,417	1,417	-
Lottery prize payments	-	-	17,804	17,804	-
Interest expense	-	2,191	58	2,249	271
Securities lending expense	-	-	11	11	20
Arbitrage rebate tax	-	67	-	67	-
Dividend expense	-	-	791	791	-
Other operating expenses	3,502	30	1,455	4,987	2,456
Total operating expenses	75,291	2,627	175,089	253,007	189,971
Operating income (loss)	18,854	141	41,554	60,549	15,666
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	-	(3)	(17)	(20)	(754)
Federal indirect cost recoveries	-	-	-	-	4,003
Increase (decrease) value of livestock	-	-	(193)	(193)	-
Total nonoperating revenues (expenses)	-	(3)	(210)	(213)	3,249
Income (loss) before contributions and transfers	18,854	138	41,344	60,336	18,915
Capital contributions	-	-	1,946	1,946	-
Transfers in (Note 12)	-	-	63	63	2,915
Transfers out (Note 12)	(2,729)	-	(28,992)	(31,721)	(190)
Change in net assets	16,125	138	14,361	30,624	21,640
Total net assets - July 1 - as previously reported	191,032	5,030	40,245	236,307	70,881
Prior period adjustments (Note 2)	-	-	(75)	(75)	2,780
Total net assets - July 1 - as restated	191,032	5,030	40,170	236,232	73,661
Total net assets - June 30	$ 207,157	$ 5,168	$ 54,531	$ 266,856	$ 95,301

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES --
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	$ 71,841	$ 5	$ 161,783	$ 233,629	$ 205,979
Payments to suppliers for goods and services	(310)	(119)	(93,493)	(93,922)	(63,536)
Payments to employees	-	(238)	(9,480)	(9,718)	(34,954)
Grant receipts	7,923	-	36,717	44,640	3,900
Grant payments	-	-	(1,347)	(1,347)	-
Cash payments for claims	(71,366)	-	(48,859)	(120,225)	(87,180)
Cash payments for prizes	-	-	(17,974)	(17,974)	-
Other operating revenues	2,552	-	620	3,172	1,636
Other operating payments	-	-	(791)	(791)	-
Net cash provided by (used for) operating activities	10,640	(352)	27,176	37,464	25,845
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	15,623	15,623	-
Transfers to other funds	(3,320)	-	(29,667)	(32,987)	(441)
Transfers from other funds	-	-	63	63	3,049
Proceeds from interfund loans/advances	-	-	1,847	1,847	10,748
Payments of interfund loans/advances	(1)	-	(1,852)	(1,853)	(9,217)
Payment of external loan	-	-	(200)	(200)	-
Collection of principal and interest on loans	-	-	561	561	-
Payment of principal and interest on bonds and notes	-	(10,616)	(445)	(11,061)	(199)
Proceeds from issuance of bonds and notes	-	177	-	177	-
Net cash provided by (used for) noncapital financing activities	(3,321)	(10,439)	(14,070)	(27,830)	3,940
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	-	-	(988)	(988)	(16,278)
Proceeds from sale of capital assets	-	-	3	3	1,483
Principal and interest payments on bonds and notes	-	-	-	-	(120)
Net cash used for capital and related financing activities	-	-	(985)	(985)	(14,915)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(1,334)	(497)	(1,831)	(10,000)
Proceeds from sales or maturities of investments	-	23,227	674	23,901	1,350
Proceeds from securities lending transactions	-	-	12	12	21
Interest and dividends on investments	10,951	692	858	12,501	876
Payment of securities lending costs	-	-	(11)	(11)	(20)
Collections of principal and interest on loans	-	20,286	-	20,286	-
Cash payment for loans	-	(22,371)	-	(22,371)	-
Arbitrage rebate tax	-	(92)	-	(92)	-
Net cash provided by (used for) investing activities	10,951	20,408	1,036	32,395	(7,773)
Net increase (decrease) in cash and cash equivalents	18,270	9,617	13,157	41,044	7,097
Cash and cash equivalents, July 1	185,863	7,535	34,983	228,381	30,279
Cash and cash equivalents, June 30	$ 204,133	$ 17,152	$ 48,140	$ 269,425	$ 37,376

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES --
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 18,853	$ 141	$ 41,554	$ 60,548	$ 15,666
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	-	1	1,707	1,708	11,276
Amortization	-	-	287	287	654
Taxes	-	-	(15,624)	(15,624)	-
Interest expense	-	2,191	58	2,249	271
Securities lending expense	-	-	11	11	20
Investment Earnings	(10,951)	(637)	(863)	(12,451)	(859)
Securities lending income	-	-	(12)	(12)	(21)
Financing income	-	(2,126)	-	(2,126)	-
Federal indirect cost recoveries	-	-	-	-	4,003
Arbitrage rebate tax	-	67	-	67	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	2,780	-	(988)	1,792	2,099
Decr (incr) in due from other funds	1	-	100	101	671
Decr (incr) in due from component units	-	-	(82)	(82)	75
Decr (incr) in due from other governments	-	-	(81)	(81)	1
Decr (incr) in inventories	-	-	(72)	(72)	(1,263)
Decr (incr) in other assets	-	-	(17)	(17)	(14)
Incr (decr) in accounts payable	288	(4)	(173)	111	(1,169)
Incr (decr) in lottery prizes payable	-	-	(118)	(118)	-
Incr (decr) in due to other funds	-	(3)	(45)	(48)	(548)
Incr (decr) in due to component units	-	-	-	-	(28)
Incr (decr) in due to other governments	-	-	586	586	-
Incr (decr) in deferred revenue	-	-	(737)	(737)	(3)
Incr (decr) in amounts held in custody for others	(331)	-	(84)	(415)	(14)
Incr (decr) in compensated absences payable	-	18	(101)	(83)	(222)
Incr (decr) in estimated claims	-	-	1,870	1,870	(4,750)
Net cash provided by (used for) operating activities	$ 10,640	$ (352)	$ 27,176	$ 37,464	$ 25,845
Schedule of noncash transactions:					
Capital asset acquisitions from capital leases	$ -	$ -	$ -	$ -	$ 793
Amortization of bond issuance costs	-	-	8	8	-
Incr (decr) in fair value of investments	-	(9)	(22)	(31)	(31)
Total noncash transactions	$ -	$ (9)	$ (14)	$ (23)	$ 762

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FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trust Funds

These funds provide retirement, disability, death, and lump-sum payments to retirement system members.

Private-Purpose Trust Funds

These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

Investment Trust

This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Individual funds are presented, by fund type, beginning on page 184.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005
(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	$ 109,529	$ 2,481	$ 580,876	$ 8,258
Receivables (net):				
Accounts receivable	17,080	8	-	659
Interest	14,673	-	-	-
Due from primary government	14,732	-	-	-
Due from other PERB plans	350	-	-	-
Long-term loans/notes receivable	167	-	-	-
Total receivables	47,002	8	-	659
Investments at fair value:				
Equity in pooled investments (Note 3)	6,137,767	-	-	-
Other investments (Note 3)	374,871	-	-	-
Total investments	6,512,638	-	-	-
Securities lending collateral (Note 3)	277,755	-	-	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(264)	-	-	-
Intangible assets	1,187	-	-	-
Total capital assets	1,268	-	-	-
Other assets	21	7,131	-	12,201
Total assets	6,948,213	9,620	580,876	21,118
LIABILITIES				
Accounts payable	750	18	529	812
Due to primary government	113	-	-	-
Due to other PERB plans	350	-	-	-
Due to other funds (Note 12)	26	-	-	-
Advances from primary government	1,380	-	-	-
Advances from other funds (Note 12)	181	-	-	-
Deferred revenue	62	-	-	-
Amounts held in custody for others	-	-	-	20,306
Securities lending liability (Note 3)	277,755	-	-	-
Compensated absences payable	403	-	-	-
Total liabilities	281,020	18	529	21,118
NET ASSETS				
Held in trust for pension benefits and other purposes	$ 6,667,193	$ 9,602	$ 580,347	$ -

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	$ 135,929	$ -	$ -
Employee	150,499	-	-
Other contributions	17,961	-	1,084,719
Net investment earnings:			
Investment earnings	509,649	32	12,328
Administrative investment expense	(9,869)	-	-
Securities lending income	6,369	-	-
Securities lending expense	(5,922)	-	-
Charges for services	345	-	-
Other additions	195	4,000	-
Transfers in	150	-	-
Total additions	805,306	4,032	1,097,047
DEDUCTIONS			
Benefits	359,329	-	-
Refunds	20,393	-	-
Distributions	-	2,453	1,118,611
Administrative expenses:			
Personal services	2,311	-	-
Contractual services	2,283	-	-
Supplies/materials	75	-	-
Depreciation	5	-	-
Amortization	403	-	-
Utilities/rent	250	-	-
Communications	174	-	-
Travel	49	-	-
Repair/maintenance	55	-	-
Grants	-	4	-
Interest expense	51	-	-
Other operating expenses	349	-	-
Local assistance	11	-	-
Transfers to ORP	159	-	-
Transfers to PERS-DCRP	914	-	-
Total deductions	386,811	2,457	1,118,611
Change in net assets	418,495	1,575	(21,564)
Net assets - July 1 - as previously reported	6,248,441	8,035	601,911
Prior period adjustments (Note 2)	257	(8)	-
Net assets - July 1 - as restated	6,248,698	8,027	601,911
Net assets - June 30	$ 6,667,193	$ 9,602	$ 580,347

The notes to the financial statements are an integral part of this statement.

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COMPONENT UNIT FINANCIAL STATEMENTS

Housing Authority

This authority facilitates the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes.

Facility Finance Authority

This authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing possible.

State Compensation Insurance Fund (New and Old)

This fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax.

Montana State University and University of Montana

These universities are funded through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services.

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2005
(expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	$ 5,772	$ 1,943	$ 32,157	$ 12,207
Receivables (net)	16,477	237	12,930	704
Due from primary government	5	-	2	-
Due from other governments	33	-	-	-
Due from component units	-	-	702	212
Inventories	-	-	-	-
Long-term loans/notes receivable	662,373	338	36	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	216,347	-	656,029	51,353
Securities lending collateral (Note 3)	-	-	101,859	17,769
Deferred charges	7,434	-	-	-
Capital assets (net) (Note 5)	81	1	4,690	-
Other assets	209	1	8,429	-
Total assets	908,731	2,520	816,834	82,245
LIABILITIES				
Accounts payable	4,117	9	13,690	245
Due to primary government	25	2	1,072	1
Due to other governments	33	-	-	-
Due to component units	-	-	212	702
Advances from primary government	-	-	-	-
Deferred revenue	-	-	4,926	-
Amounts held in custody for others	3	-	13,055	-
Securities lending liability (Note 3)	-	-	101,859	17,769
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	10,367	13	111,875	10,322
Due in more than one year	756,226	12	401,471	68,787
Total liabilities	770,771	36	648,160	97,826
NET ASSETS				
Invested in capital assets, net of related debt	81	-	4,690	-
Restricted for:				
Federal grants	-	-	-	-
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	137,879	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	2,484	163,984	(15,581)
Total net assets	$ 137,960	$ 2,484	$ 168,674	$ (15,581)

The notes to the financial statements are an integral part of this statement.

MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$ 88,504	$ 60,906	$ 201,489
16,473	21,848	68,669
854	1,007	1,868
12,254	8,618	20,905
191	457	1,562
2,799	1,732	4,531
17,015	9,317	689,079
10,044	7,048	17,092
146,499	158,156	1,228,384
1,203	730	121,561
-	-	7,434
249,731	244,710	499,213
5,440	4,146	18,225
551,007	518,675	2,880,012
16,871	19,311	54,243
1,597	1,050	3,747
8,469	23	8,525
458	190	1,562
8,688	5,457	14,145
8,623	10,600	24,149
3,917	1,995	18,970
1,203	730	121,561
3,593	5,961	9,554
16,838	12,629	162,044
138,326	153,401	1,518,223
208,583	211,347	1,936,723
158,792	110,945	274,508
-	21	21
15,538	17,126	32,664
78,812	101,256	180,068
-	-	137,879
35,060	46,460	81,520
54,222	31,520	236,629
$ 342,424	$ 307,328	$ 943,289

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
EXPENSES	$ 42,460	$ 276	$ 202,930	$ 10,555
PROGRAM REVENUES:				
Charges for services	219	280	189,430	-
Operating grants and contributions	48,636	62	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	48,855	342	189,430	-
Net (expenses) program revenues	6,395	66	(13,500)	(10,555)
GENERAL REVENUES:				
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	39,402	2,417
Payment from State of Montana	-	-	-	-
Miscellaneous	11	-	-	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	11	-	39,402	2,417
Change in net assets	6,406	66	25,902	(8,138)
Total net assets - July 1 - as previously reported	131,554	2,418	142,772	(7,443)
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	131,554	2,418	142,772	(7,443)
Total net assets - June 30	$ 137,960	$ 2,484	$ 168,674	$ (15,581)

The notes to the financial statements are an integral part of this statement.

	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
	$ 372,205	$ 293,932	$ 922,358
	149,688	129,659	469,276
	148,435	108,069	305,202
	4,554	2,378	6,932
	302,677	240,106	781,410
	(69,528)	(53,826)	(140,948)
	106	-	106
	4,044	10,134	55,997
	79,996	58,441	138,437
	-	-	11
	4,280	8,928	13,208
	88,426	77,503	207,759
	18,898	23,677	66,811
	323,151	281,556	874,008
	375	2,095	2,470
	323,526	283,651	876,478
	$ 342,424	$ 307,328	$ 943,289

State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2005

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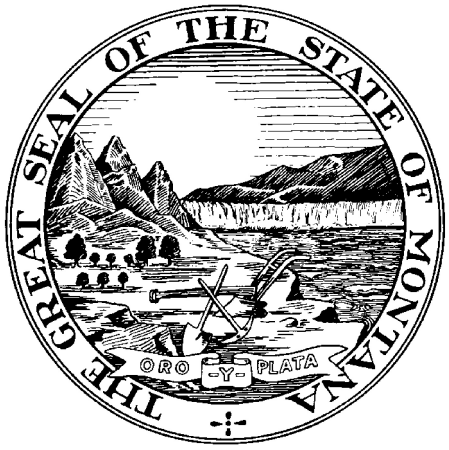

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December 16, 2005

To the Citizens, Governor and Members of the Legislature of the State of Montana:

In accordance with Section 17-2-110, Montana Code Annotated (MCA), I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 2005. Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation rests with the Department of Administration. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State of Montana. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

DESCRIPTION OF THE CAFR

This report and the accompanying financial statements and statistical tables were prepared in accordance with standards set forth by the Governmental Accounting Standards Board (GASB).

This CAFR is divided into three main sections: introductory, financial, and statistical. The introductory section includes an organization chart for the State, a table of contents, and this transmittal letter. The financial section contains management's discussion and analysis, the independent auditor's report, government-wide financial statements, fund financial statements, notes to the financial statements, combining statements by fund type, and other schedules. The statistical section includes financial, economic, and demographic data.

This report includes all funds of those entities that comprise the State of Montana (the primary government) and its component units. The component units are entities that are legally separate from the State, but for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body; and (1) the State is able to impose its will on that organization; or (2) there is the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The following component units are included in the State's financial reporting entity: Housing Authority, Facility Finance Authority, State Compensation Insurance Fund (Old and New), Montana State University, University of Montana, Public Employees Retirement Board, and Teachers Retirement System. These component units are discretely presented in the State's financial statements.

PROFILE OF THE GOVERNMENT

Montana became the 41st state when it was admitted to the Union in 1889, 25 years after the attainment of territorial status. With an area of 145,552 square miles, Montana is the nation's fourth largest state. With an estimated current population of 927,000, it is also one of the nation's most sparsely populated states. It is a vast land: a land including rolling plains, the Northern Rocky Mountains, two national parks, wheat farms and cattle ranches, tribal lands, and extensive natural resources.

In 1972, a constitutional convention convened, rewriting the State's constitution and establishing the current governmental structure. As shown in the organizational chart on page 12, state government is divided into three separate branches: legislative, executive, and judicial. Montana's Legislature consists of 50 senators and 100 representatives elected from single-member districts. The Legislature meets at regular biennial sessions for 90 days in odd-numbered years. Montana is governed by its constitution, and its laws are administered by its executive branch officers and various

boards and commissions. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conversation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

ECONOMIC CONDITION AND OUTLOOK

Montana's economy continues to grow at a rate much higher than that experienced, on average, over the past 35 years. The current estimated growth rate for Montana's economy in calendar year 2005 is estimated at 3.4%, as compared to the 35-year average rate of 2.1%. Montana's economic base remains concentrated in agriculture, mining, wood products, and other manufacturing, nonresident travel, and government. This continued high growth rate is reflected in a strong State financial position at the end of the fiscal year and the related second quarter 2005 income increases in all sectors of Montana's economy. Montana's income tax revenues increased as a result of this internal income growth, trends in the stock market, and the continued low level of U.S. interest rates. Montana corporate income tax revenues are affected by the overall profits of intra and interstate corporations. For a more in-depth analysis of the impact of this growth on the State's financial position, the reader should refer to management's discussion and analysis and the financial statements contained in this document.

Montana's wheat yields grew again in 2005, with winter wheat yields reaching 92.3 million bushels exceeding the high 1993 level for a second year in a row. Spring and durum wheat yields are expected to reach 81.6 and 15.8 million bushels, respectively. This represents a decrease in spring and durum wheat of 10% and 12%, respectively. Montana's overall wheat production is projected to reach 190 million bushels, well above the State's 2004 production level of 173.2 million bushels. Overall barley production fell about 8% to an estimated 39.8 million bushels. The decreases in production in spring and durum wheat and barley are primarily due to the impacts of a very hot summer. At this time, wheat prices appear to be stable in the US, but may be impacted by high production in Argentina and Australia, whose harvests will not occur until November. Current wheat prices appear to be stable, but the positive effect on farm income has also been reduced by the higher cost of fuel.

With 2.35 million head, Montana ranked twelfth in the US cattle and calf industry. Although national cattle exports have decreased, this has been offset by an increase in US consumer demand. As a result, beef prices have risen slightly; with Montana's 2003 receipts from cattle sales exceeding $950 million.

As of the end of calendar year 2004, Montana's manufacturing sector shows some improvement after a three-year decline. Employment in this industry continued to decline, with about 24,000 workers employed at the end of 2004, as compared to 25,000 workers at the end of 2003. Employee earnings in the manufacturing industry increased to over $1 billion in 2004. The manufacturing sector produced about $5 billion in output and accounted for 20% of Montana's economic base. The earnings increase in 2004 was primarily due to higher per-unit prices, not volume increases. The sector continues to face raw material shortages, especially in the timber, steel, and petroleum based products areas. In the second quarter of 2005, Montana's manufacturing sector appears to be reversing this trend, and has posted a 3.2% increase in earnings growth.

Prices for lumber and other wood products increased substantially for the second year in a row. Despite the increase in lumber prices and a very strong demand, production decreased again in Montana for 2004. Due to a major mill closure and the low timber volume provided from national forests, employment decreased 4% to 9,000 workers from the 2003 level of 9,400 workers. Estimated total sales value of the State's primary wood and paper products in 2004 was $1.2 billion, up about $230 million from 2003. Montana's estimated lumber production was 1 billion board feet in 2004, down from 1.07 billion board feet in 2003. Montana's timber production will probably decrease slightly again in 2005 because of the dependency on the national forest harvest volume, which continues at a 50 year low.

Nonresident travel to Montana in 2004 remains unchanged with a minimal .03% increase over 2003. The visitor numbers for Glacier and Yellowstone national parks were mixed. While Yellowstone Park posted a 5% decrease in visitors; Glacier Park saw a 22% increase. Motel occupancy posted a slight decrease of 0.4% from the 2003 levels. Current estimates indicate that the travel industry will increase by approximately 2% in 2005. Nonresident travelers contribute to the tax base by paying the lodging tax, excise taxes such as those on gasoline, and indirectly by supporting employment in industries that pay corporate taxes and whose workers pay income, property, and other taxes. Travel expenditures in

Montana totaled $1.95 billion in 2004, which is a 1% increase from the 2003 level. The direct economic impact of nonresident travel is estimated at $2.6 billion. Combined with the indirect and induced economic benefits, the economic benefit of nonresident travel on Montana is $3.7 billion.

An estimated 315 million barrels of oil reserves exist under Montana's land. Due to increases in the crude oil price significantly above the rough cost of $27 a barrel it costs to produce oil in Montana, and increases in natural gas prices, the State has seen more production and exploration activity. This not only translates into a positive economic impact for the State as a whole but a much needed economic benefit for eastern areas of the State. The increased oil and natural gas production and exploration activity offset some of the negative impacts that related price increases had on the State's economy. With the oil price increase appearing to be demand rather than supply driven, it appears the additional production and exploration activity may be of a long-term nature.

MAJOR INITIATIVES

The 59th Legislature met in regular session on January 3, 2005, and adjourned on April 21, 2005. Unlike the previous Legislature, this session began with a significantly improved State financial picture, with an estimated ending General Fund balance of $162.4 million. No major tax policy changes resulted from this legislative session. The only major shift of revenue from the General Fund was to deposit mineral royalties directly into the State Special Revenue Fund. These were previously deposited in the General Fund and later transferred to the State Special Revenue Fund. While this resulted in a decrease in General Fund revenue of $33 million, a corresponding decrease in transfers out also occurred, leaving a net impact on the General Fund fund balance of $0. This revenue decrease of $33 million accounted for 84 percent of the projected decreases in General Fund revenue for the 2007 biennium.

The Legislature passed Senate Bill 152 defining a quality K-12 education and educationally relevant factors to which a funding system must be correlated. Senate Bill 525 was passed creating a Quality Schools Interim Committee to (1) assess the educational needs of Montana Children; (2) determine the cost of providing a quality education; (3) determine the State's share of the costs; and (4) construct a funding formula in accordance with the requirements contained in the legislation. The Interim Committee was given until December 2005 to meet these objectives. Additionally, the Legislature increased K-12 funding by $88 million over the 2007 biennium. Passage of these bills was related to a December 2004 preliminary decision by the Montana Supreme Court requiring the State to (1) study and determine the components of free quality public elementary and secondary education and the costs of delivering such education; (2) implement a funding system based on educationally relevant factors; (3) fully fund and equitably distribute the State's share of the costs of public elementary and secondary education; (4) include a cost adjustment factoring the funding system; and (5) establish a mechanism for monitoring and adjusting the funding system and an award of attorney's fees. The court required this to be complete by October 2005. This deadline was not met for all of the court's requirements. The court's reaction to the legislative actions remains to be seen. To further address this issue, a special session of the Legislature will convene on December 14, 2005. This case is discussed more fully in Note 17.

The economic and community development initiatives of the 59th Legislature were included in 12 bills passed during the session. These include two bills enacted to provide business retention, expansion or research through tax incentives; two bills aimed at removing or reducing impediments to economic or community development; and eight bills providing appropriations for economic and community development. Appropriations of $36.1 million were included in the General and State Special Revenue Fund for this activity.

To initiate the process of addressing deferred maintenance of State buildings, the Legislature approved a one-time transfer of $30 million from the General Fund to the Long-Range Building Capital Projects Fund. This will be used to address a growing backlog of safety, major repair, and deferred maintenance projects.

State employee salaries were increased as a result of the passage of House Bill 447. This bill provided for a salary increase of 3.5% or $1,005, whichever was greater, beginning on October 1, 2005, and 4% or $1,118, whichever is greater, beginning on October 1, 2006. The estimated 2007 biennium cost of the salary increase is $37.6 and $37.2 million in the general and other funds, respectively.

The Legislature approved Senate Bill 146 creating the Office of State Public Defender to provide equitable public defender services throughout the State. The Legislature set total funding for this office at $14.6 million for the 2007 biennium.

FINANCIAL INFORMATION

Montana's Statewide Budgeting, Accounting, and Human Resource System (SABHRS) is a centrally maintained, fully computerized, double-entry accounting system. SABHRS records are computer-edited.

Management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss or misuse, and that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. In developing and evaluating the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the above objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary restrictions are imposed via appropriations approved by the Legislature or established administratively as provided for by state law. Appropriations are required by state law for the general, state and federal special revenue, and capital projects funds. The level of budgetary control is generally established by fund. SABHRS is designed to provide budgetary control by preventing spending in excess of legislative and administrative authority and/or available cash. SABHRS also provides for encumbrance accounting as a technique for accomplishing budgetary control.

General Fund Balance
The unreserved, undesignated fund balance of the General Fund increased from $132.9 million at June 30, 2004, to $289.7 million at June 30, 2005. This represents an increase of $156.8 million (or 118%).

Pension Trust Fund Operations
The State contributes to eight retirement plans and is the administrator of two additional plans. The two largest plans, in terms of dollars contributed and employees covered, are the Public Employees Retirement System - Defined Benefit Retirement Plan and the Teachers Retirement System.

The 1997 Legislature enacted legislation that establishes a guaranteed annual benefit adjustment (GABA) for enrolled members or surviving beneficiaries under each of the statewide public employee retirement plans. The annual maximum adjustment of 3% begins 36 months after a beneficiary's initiation date. The benefit adjustment, when combined with other benefit adjustments already in law, must equal a maximum of 3% per year. The GABA automatically covers beneficiaries in the retirement plans for public employees, sheriffs, and game wardens. Beneficiaries in the retirement plans for highway patrol officers, municipal police officers, firefighters unified, and judges may choose to be covered by GABA, or by benefits adjustment mechanisms already in place. The legislation establishing the GABA also provides a mechanism to actuarially fund the Judges Retirement System.

The 1999 Legislature enacted legislation that also establishes a guaranteed annual benefit adjustment (GABA) for certain benefit recipients in the Teachers Retirement System. A benefit recipient is eligible for the maximum benefit adjustment of 3% if the retiree's most recent retirement effective date is at least 36 months prior to January 1 of the year in which the adjustment is to be made.

Cash Management
The uniform investment program established by the 1972 Montana Constitution directs that the Board of Investments have sole authority to invest state funds. The board operates under the "prudent person principle", which requires the board to (1) discharge its duties in the same manner as that of a prudent person acting in a like capacity with the same resources and aims; (2) diversify the holdings of each fund to minimize the risk of loss and maximize the rate of return; and (3) discharge duties solely in the interest of, and for the benefit of, the funds managed. Permissible investments include bonds, notes, debentures, equipment obligations, common stock (pension trust and higher education funds only), commercial paper, bankers acceptances, interest bearing deposits in Montana financial institutions, real estate, and any other investment in a Montana business that continues existing jobs or creates new jobs. These investments are subject to statutory restrictions for quality and size of holdings.

Unless otherwise provided by law, treasury cash is pooled for investment regardless of the fund from which it is deposited, and the pool investment earnings are credited to the General Fund. The board reported total investment income from investments under its management of $349 million, a decrease of 25% from the $466 million earned last year. The book value of board-managed investments increased by approximately $787 million, or 8.8%, to $9.8 billion at fiscal year-end 2005. The board publishes an annual audited report of all its investment activity. That report may be referenced for more in-depth investment information.

Risk Management
Wage loss and medical expense benefits for injured state employees, excluding the Montana University System, are provided by the State Compensation Insurance Fund (State Fund). The State Fund is a nonprofit, independent public corporation that is managed and controlled by a seven-member board of directors. The Governor appoints the board members for four-year terms. Funding is primarily derived from the premiums paid by policyholders.

The Montana University System Workers Compensation Program provides self-insured workers compensation coverage for employees of the Montana University System. The program is self-insured for workers compensation claims to a maximum of $500,000 per each occurrence. Losses in excess of $500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $500,000. The State maintains self-insurance plans for employee comprehensive medical, prescription drug and dental coverage, and state property. Under the State Employee Group Benefits Plan, the State assumes all the risk for claims incurred by plan members including state employees, elected officials, retirees and their dependents with the following exceptions: the Vision Service Plan (VSP) Insurance Company insures vision care services; the Standard (Standard) Life Insurance Company insures life, AD&D, and long-term disability coverage; and UNUM Life Insurance Company insures the long-term care coverage offered to participants. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement System and self-payment.

The Montana University System (MUS) Group Benefits Plan offers medical, dental, life, and vision insurance coverage to employees of the Montana University System, the community colleges, and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for a voluntary vision plan administered by VSP serving employees, retirees and their dependents and life insurance administered by Standard. Blue Cross/Blue Shield is the claims administrator for the self-insured indemnity plan. The plan includes three self-insured HMOs that are administered by Blue Cross, New West Health Services, and Peak. Managed Care Montana (APS) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management, and medical necessity review.

The State's comprehensive property/casualty insurance plan provides coverage for accidental death/dismemberment of volunteers (Montana University System), automobile liability, automobile physical damage, aviation (i.e., aircraft and airports), boilers and machinery, crime (i.e., faithful performance, fidelity, theft, destruction, and electronic fraud), fine arts, foster care, general liability, inland marine (property in-transit), state-administered foreclosure housing units, and other miscellaneous risks. Commercial excess property insurance is purchased to insure against catastrophic losses, with deductibles ranging from $10,000 per occurrence to $1,000,000 per occurrence. Coverage includes auto physical damage, aircraft hull, boilers and machinery, fine arts, crime, and foster care with over $2.2 billion of state leased/owned or specialty buildings, contents, and other risk insured to $250,000,000 per occurrence (various sub limits and coverage restrictions apply). The State is entirely self-funded for auto liability and general liability, subject to the terms and conditions of the Montana Tort Claims Act (§2-9-305, MCA). The state's statutory caps are set by the Legislature at $750,000 per claim/$1,500,000 per occurrence (§2-9-108, MCA). Premiums for the plan are collected from all state agencies, including component units, and costs are allocated based upon exposure and loss experience.

INDEPENDENT AUDIT

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited in accordance with generally accepted auditing standards by the State's Legislative Audit Division. The Legislative Auditor is appointed by and reports to the Legislative Audit Committee. The Deputy Legislative Auditor issued an unqualified opinion on the State's financial statements for fiscal year 2005.

The Deputy Legislative Auditor added an additional paragraph to the unqualified opinion for 2005 emphasizing four of the retirement systems are not actuarially sound and have an unfunded actuarially accrued liability as of June 30, 2005. The actuarial condition of these plans is fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Notes 6 and 18 of the financial statements. The unfunded actuarial liability is long-term in nature and does not translate into an inability of these plans to meet their current obligations in the near future. The State is very aware of this situation and is taking steps to address it.

In this additional paragraph, the Deputy Legislative Auditor also discusses the underfunding of the Sheriff's Retirement System. This is fully disclosed and reported as required by GAAP, and explained in greater detail in Notes 6 and 18 of the financial statements. This does not translate into an inability of the plan to meet current obligations in the near future.

CERTIFICATE OF ACHIEVEMENT

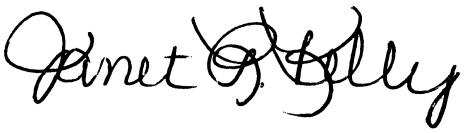
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Montana for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This was the sixteenth year out of seventeen years that the State received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to conform to the Certificate of Achievement Program requirements; we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the Accounting Bureau and the cooperation of accounting personnel at the individual state agencies. I would like to express my appreciation to the Accounting Bureau and other agency personnel who participated in the preparation of this document. I would also like to thank the Legislature and all state agencies for their interest and support in planning and conducting the financial operations of Montana in a professionally responsible and progressive manner.

Respectfully submitted,



Janet Kelly, Director
Department of Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Montana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Nancy L. Zielke
President

Jeffrey R. Esser
Executive Director

STATE OF MONTANA
ORGANIZATION CHART

LEGISLATIVE

- Senate
- House of Representatives
- Legislative Audit Division
- Legislative Fiscal Division
- Legislative Services Division
- Montana Consumer Counsel

EXECUTIVE

- Governor
- Lieutenant Governor
- Attorney General
- Public Service Commissioners
- Secretary of State
- State Auditor
- Superintendent of Public Instruction

JUDICIAL

- Supreme Court
- District Courts
- Water Courts
- Workers Compensation Court
- Justice of the Peace Courts
- City or Municipal Courts
- State Law Library
- Supreme Court Administrator
- Clerk of Supreme Court

STATE AGENCIES

- Administration
- Agriculture
- Arts Council
- Board of Pardons and Parole
- Board of Public Education
- Commerce
- Commissioner of Political Practices
- Commissioner of Higher Education
- Corrections
- Environmental Quality
- Fish, Wildlife and Parks
- Historical Society
- Labor and Industry
- Livestock
- Military Affairs
- Natural Resources & Conservation
- Public Employee Retirement
- Public Health & Human Services
- Revenue
- School for the Deaf and Blind
- State Fund
- State Library
- Teachers Retirement System
- Transportation

State of Montana
SELECTED STATE OFFICIALS

EXECUTIVE

Brian Schweitzer

Governor

John Bohlinger

Lieutenant Governor

JUDICIAL

Karla Gray

Chief Justice

LEGISLATIVE

Jon Tester

President of the Senate

Gary Matthews

Speaker of the House

State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights
The assets of the State exceeded its liabilities at the end of fiscal year 2005 by $5.4 billion (reported as net assets) compared with $4.6 billion at the end of fiscal year 2004. Of this amount, $421.4 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of $943.3 million compared with $874 million at fiscal year 2004.

Fund Highlights
As of the close of fiscal year 2005, the State's governmental funds reported combined ending fund balances of $2.7 billion compared with $2.3 billion at fiscal year 2004. Of this amount, $252.8 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of $2.4 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was $289.7 million compared with $132.9 million in fiscal year 2004, which is a increase of $156.8 million (or 118%).

The State's business-type activity funds reported net assets at the close of fiscal year 2005 in the amount of $266.9 million compared with the fiscal year-end 2004 net assets of $236.3 million. $240.5 million of the business-type activity fund equity was restricted at fiscal year-end 2005 leaving an unrestricted balance of $16.7 million. This represents a $1.8 million (or 12.1%) increase from the fiscal year-end 2004 business-type activity fund unrestricted net asset balance of $14.9 million.

Long-term Debt
The State's total bonds and notes payable for governmental activities increased by $116.5 million, from $305.1 million in fiscal year 2004 to $421.6 million (or 38.2%) in fiscal year 2005.

Business-type activities reported bonds and notes payable of $5.2 million at fiscal year-end 2005. This represents a decrease of $2.7 million (or 34.2%) over the fiscal year-end 2004 reported amount of $7.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

Basic Financial Statements
The basic financial statements include two kinds of financial statements that present different views of the State – the g*overnment-wide financial statements* and the *fund financial statements and combining major component unit financial statements.* These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements
The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using

the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund,

the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. Internal Service Fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the accrual basis of accounting.

Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Required Supplementary Information
The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session, stronger than expected statewide economic performance, an almost non-existent 2005 fire season, and the receipt of the federal Jobs and Growth Tax Relief Reconciliation Act of 2004 (JGTRRA).

Net Assets
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled $5.4 billion at the end of fiscal year 2005. Net assets of the governmental activities increased $761.6 million (or 17.6%), and business-type activities had a $30.6 million (or 12.9%) increase.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets
As of Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2005	2004	2005	2004	2005
Current and other assets	$2,952,118	$3,407,149	$350,552	$373,018	$3,302,670	$3,780,167
Capital assets	2,409,128	2,805,658	8,925	9,670	2,418,053	2,815,328
Total assets	5,361,246	6,212,807	359,477	382,688	5,720,723	6,595,495
Long-term liabilities	336,669	444,855	9,896	7,150	346,565	452,005
Other liabilities	693,483	675,235	113,274	108,682	806,757	783,917
Total liabilities	1,030,152	1,120,090	123,170	115,832	1,153,322	1,235,922
Invested in capital assets, net of related debt	2,250,177	2,528,808	8,925	9,670	2,259,102	2,538,478
Restricted	1,858,088	2,159,185	212,473	240,514	2,070,561	2,399,699
Unrestricted	222,829	404,724	14,909	16,672	237,738	421,396
Total net assets	$4,331,094	$5,092,717	$236,307	$266,856	$4,567,401	$5,359,573

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

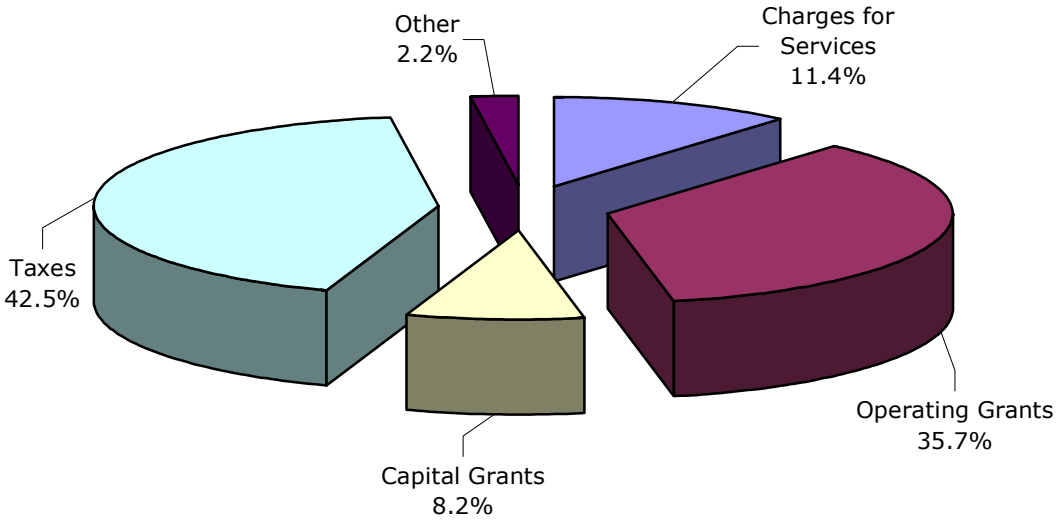
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2005	2004	2005	2004	2005
Revenues:						
Program revenues						
Charges for services	$ 472,445	$ 443,984	$220,903	$236,365	$ 693,348	$ 680,349
Operating grants	1,271,515	1,391,026	55,487	58,433	1,327,002	1,449,459
Capital grants	290,045	319,434	177	159	290,222	319,593
General revenues						
Taxes	1,436,571	1,657,668	14,621	15,624	1,451,192	1,673,292
Other	64,531	85,497	10,275	3,135	74,806	88,630
Total revenues	3,535,107	3,897,609	301,463	313,716	3,836,570	4,211,323
Expenses:						
General government	285,781	305,819	-	-	285,781	305,819
Public safety/corrections	227,786	258,610	-	-	227,786	258,610
Transportation	400,034	281,074	-	-	400,034	281,074
Health/social services	1,109,045	1,182,281	-	-	1,109,045	1,182,281
Educational/cultural	874,846	900,542	-	-	874,846	900,542
Resource/rec/environ	258,057	197,539	-	-	258,057	197,539
Econ dev/assistance	144,687	144,777	-	-	144,687	144,777
Interest on long-term debt	15,088	14,375	-	-	15,088	14,375
Unemployment Insurance	-	-	93,882	75,291	93,882	75,291
Liquor Stores	-	-	42,827	45,503	42,827	45,503
State Lottery	-	-	28,669	27,681	28,669	27,681
Economic Dev Bonds	-	-	2,197	2,630	2,197	2,630
Hail Insurance	-	-	1,949	3,153	1,949	3,153
Gen Govt Services	-	-	48,395	50,329	48,395	50,329
Prison Funds	-	-	4,244	5,268	4,244	5,268
MUS Group Insurance	-	-	39,690	40,524	39,690	40,524
MUS Workers Comp	-	-	2,552	2,842	2,552	2,842
Total expenses	3,315,324	3,285,017	264,405	253,221	3,579,729	3,538,238
Increase (decrease) in net assets before transfers	219,783	612,592	37,058	60,495	256,841	673,085
Transfers	30,812	29,871	(30,812)	(29,871)	-	-
Change in net assets	250,595	642,463	6,246	30,624	256,841	673,085
Net assets, beg of year (restated)	4,080,499	4,450,254	230,061	236,232	4,310,560	4,686,488
Net assets, end of year	$4,331,094	$5,092,717	$236,307	$266,856	$4,567,401	$5,359,573

Governmental Activities

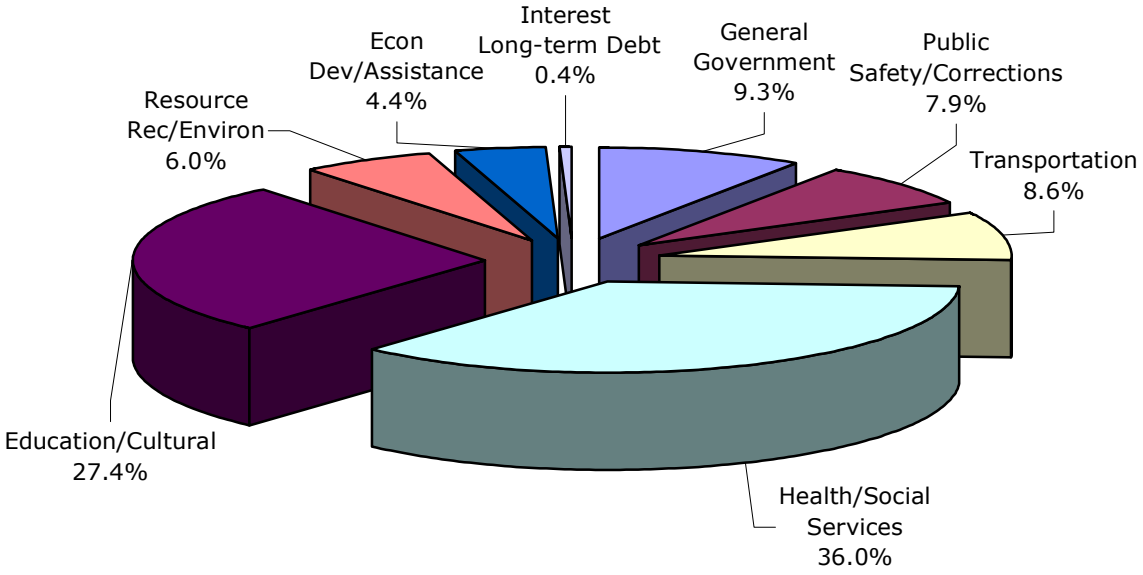
The following chart depicts revenues of the governmental activities for the fiscal year:

Revenues - Governmental Activities
Fiscal Year Ended June 30, 2005

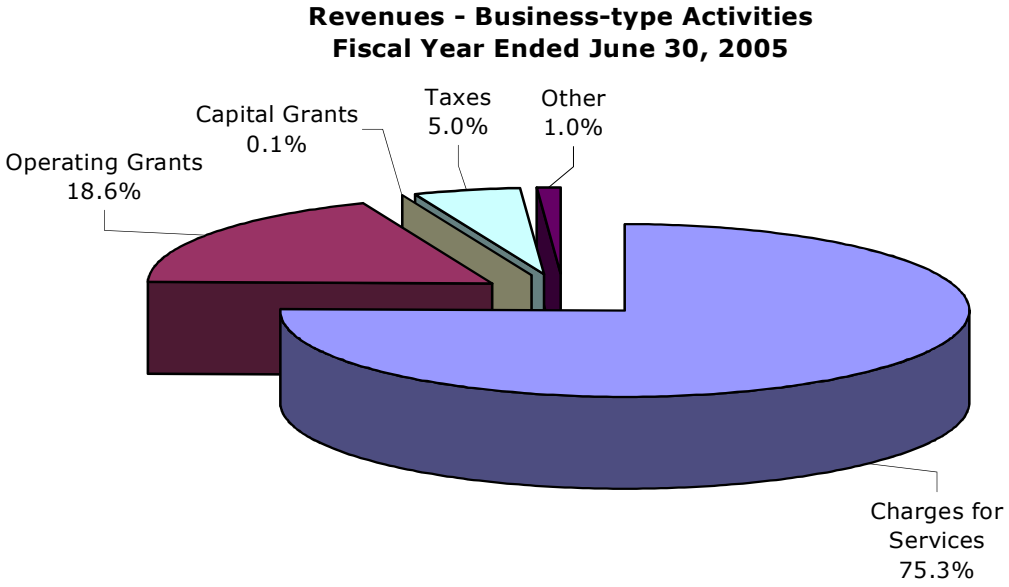


The following chart depicts expenses of the governmental activities for the fiscal year:

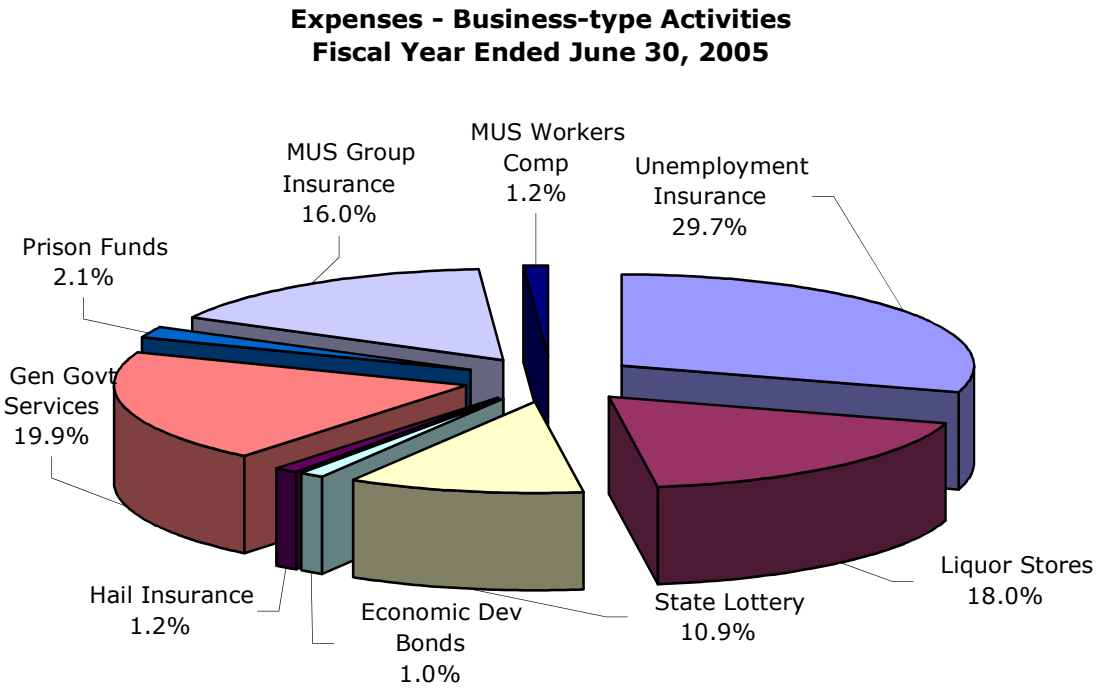
Expenses - Governmental Activities
Fiscal Year Ended June 30, 2005



Business-type Activities
The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of $2.7 billion. Of this total amount, $258.5 million (or 9.6%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending, as it has already been dedicated for various commitments.

General Fund
The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was $289.7 million. Unreserved fund balance increased during the fiscal year by $156.8 million, primarily because of increased taxes (natural resource, individual income, corporate income, and property), and licenses and permits revenue.

General Fund Budgetary Highlights – The 59th Legislative Session convened on January 3 and adjourned on April 21, 2005. The session approved a 342.7 million increase in General Fund spending for the 2007 biennium. This represents an almost 15% increase over the 2005 biennium expenditure level. The General Fund budgetary increases approved for the 2007 biennium follow:

- $104 million increase in Human Services programs.
- $86.5 million increase for K-12 Education
- $36.3 million increase for Higher Education
- $34 million increase for Corrections
- $81.8 million for other governmental functions

Supplemental Development – General Fund supplementals approved by the Legislature included $4.4 million for secure care and corrections of inmates; $8.5 million for the highway patrol court settlement; $6.8 million for additional district court reimbursements; $9 million to fully fund the Crow Tribe settlement escrow account, and $16 million (transfer and expenditure authority) to pay the remaining IRIS loan balance and final contractor obligations.

Higher Revenues Than Anticipated – The General Fund experienced revenue growth significantly higher than expected in fiscal year 2005. Overall General Fund revenues were up by $142.2 million (or 11.6%). This was primarily due to the individual and corporate income tax revenue increase of $100.2 and $30.5 million, respectively. Continued economic growth within Montana and the recovery of the investment market contributed to this income tax growth. Higher energy and metals prices led to increased oil, gas, and metals production within the State. This increased activity resulted in a $27.6 million increase in natural resource tax revenues between fiscal years 2004 and 2005.

General Fund Expenditures – General Fund expenditures increased by $66 million (or 5.7%) in 2005. These increases were primarily for the purposes described in the supplemental development section above.

State Special Revenue Fund
At the end of the current fiscal year, fund balance of the State Special Revenue Fund was $907.4 million. Fund balance increased during the fiscal year by $213.2 million, primarily because of increased natural resource tax, property tax, investment earnings, and federal revenue.

Within the State Special Revenue Fund, expenditures increased $21.2 million in the General Government function. This primarily relates to increased oil production tax distributions to the counties of $20.5 million. The Education/Cultural functional expenditures increased by $12.7 million. This primarily relates to an increase in land trust distributions to the State's K-12 schools of $11.5 million. Department of Transportation Highway expenditures decreased by $27.3 million, offsetting the increases previously discussed.

Federal Special Revenue Fund
Fund balance in the Federal Special Revenue Fund decreased to $27.4 million (or 12.8%).

The decrease of $46.4 million in charges for services revenues and increase of $43.3 million in indirect cost recoveries represent a correction in the classification of federal highway indirect cost recoveries. These revenues were previously misclassified as charges for services.

Overall revenues or expenditures did not increase significantly in the Federal Special Revenue Fund during fiscal year 2005. Significant changes within the functional categories were caused by (1) Transportation - Increased federal highway

construction expenditures of $25.4 million; (2) Resource/Recreation/Environment - Decreased federal fire reimbursements of $44.6 million; (3) Capital Outlay - Increased federally funded military construction projects of $12.6 million; (3) Public Safety/Corrections - Increased Disaster and Emergency Services funding to the State of $13.8 million; (4) Health and Social Services - Increased Medicaid reimbursements of $12.2 million and increased Food Stamp benefits of $9.4 million.

Coal Severance Tax Permanent Fund
Reserved fund balance in the Coal Severance Tax Permanent Fund increased by $32.8 million (or 5%). This increase was primarily fueled by increased natural resource taxes of $4.3 million (or 27.4%) and investment income of $30.5 million (or 172.4%). These increases reflect increased production of Montana's coal and a significantly improved investment climate over that of the previous year.

Land Grant Permanent Fund
Reserved fund balance in the Land Grant Permanent Fund increased by $9.5 million (or 2.2%). This increase was primarily caused by increased investment income of $27.8 million (or 418.5%). This increase reflects a significantly improved investment climate over that of the previous year. Rentals and leases and royalties income increased by $11.4 million (or 36.6%). This increase relates to the higher natural resource production within the State during 2005 as the result of higher gas, oil, timber, and metals prices. The impact of this increase in revenues on fund balance was offset by transfers out for educational purposes.

Unemployment Insurance Enterprise Fund
Net assets restricted for unemployment compensation increased by $16.1 million (or 8.4%). Unemployment premium collections increased by $5 million (or 7.4%). Unemployment benefits paid decreased by $22.1 million. Both of these factors contributed to the increase in net assets and are reflective of Montana's strong economy during 2005.

Economic Development Enterprise Fund
Net assets did not change significantly in this fund during 2005. Operating activity within this fund also did not change significantly during the year.

General Governmental Functions
Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 9.8% from fiscal year 2004 to fiscal year 2005. Revenues from various sources for fiscal year 2005, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

Revenue Source	Amount	2005 Percent of Total	Increase (Decrease) from 2004	Percent Increase (Decrease)
Licenses/permits	$ 245,244	6.4%	$ 4,632	1.9%
Taxes	1,627,858	42.2	211,466	14.9
Chg srv/fines/forfeits/settle	145,235	3.8	(55,355)	(27.6)
Investment earnings	143,937	3.7	94,574	191.6
Securities lending income	5,169	0.1	3,137	154.4
Sales doc/merch/property	22,655	0.6	4,633	25.7
Rentals/leases/royalties	43,723	1.1	12,036	38.0
Contributions/premiums	7,744	0.2	136	1.8
Grants/contracts/donations	27,984	0.7	5,116	22.4
Federal	1,502,939	39.0	22,127	1.5
Federal indir cost recvy	81,050	2.1	43,228	114.3
Other revenues	4,340	0.1	(2,072)	(32.3)
Total revenues	$3,857,878	100.0%	$343,658	

Total expenditures for all governmental functions increased 3.3% from fiscal year 2004 to fiscal year 2005. Expenditures by function for fiscal year 2005, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

Expenditure Function	Amount *(in thousands)*	2005 Percent of Total	Increase (Decrease) from 2004	Percent Increase (Decrease)
General government	$ 293,808	8.1%	$ 41,322	16.4%
Public safety/corrections	238,929	6.6	30,336	14.5
Transportation	523,022	14.5	(6,533)	(1.2)
Health/social services	1,186,462	32.8	72,398	6.5
Education/cultural	905,150	25.0	6,162	0.7
Resource/recreation/environment	206,903	5.7	(43,687)	(17.4)
Economic development/assistance	146,306	4.0	1,925	1.3
Securities lending	4,905	0.1	3,121	174.9
Debt service	41,374	1.1	1,345	3.4
Capital outlay	70,851	2.1	10,541	17.5
Total expenditures	$3,617,710	100.0%	$116,930	

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to $4.6 billion, net of accumulated depreciation of $1.8 billion, leaving a net book value of $2.8 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 16.7% in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from $219.6 million at June 30, 2004, to $213.2 million at June 30, 2005.

The ratio of general obligation debt to assessed property valuation and the amount of general obligation debt per capita are:

	Amount *(in thousands)*	Ratio Debt to Assessed Value (1)	State Debt Per Capita (2)
General obligation debt	$213,195	0.43%	$229.98

(1) Assessed value is based on tax year.
(2) Based on 2004 Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 4.4 % in the second quarter of 2005, which is unchanged from the rate of 4.4% during the second quarter of 2004. This compares favorably with the nation's average unemployment rate of 5.2% during the same time period.

The 59th Legislative Session adjourned on April 21, 2005, with a projected General Fund balance for the 2005 biennium of $162.4 million. During fiscal year 2005, economic conditions continued to improve with the General Fund balance, as of June 30, 2005, ending at the $299.8 million level.

Four of the State's retirement systems are not actuarially sound and have an unfunded actuarially accrued liability as of June 30, 2005. The actuarial condition of these plans is fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Notes 6 and 18 of the financial statements. The unfunded actuarial liability is long-term in nature and does not translate into an inability of these plans to meet their current obligations in the near future. The State is very aware of this situation and is taking steps to address it.

In addition, the Sheriff's Retirement System is underfunded. This is fully disclosed and reported as required by GAAP, and explained in greater detail in Notes 6 and 18 of the financial statements. This does not translate into an inability of the plan to meet current obligations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2005

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units
These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 204, PO Box 200528, Helena, MT 59620-0545.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 46 North Last Chance Gulch, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund and the State Special Revenue Fund.

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to each plan member. These legally separate plans include the Public Employees Defined Benefit Retirement Plan, Public Employees Defined Contribution Retirement Plan, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) includes the Public Employees Defined Benefit Retirement Plan and the Public Employees Defined Contribution Retirement Plan, and is funded from employer and employee contributions, investment earnings and contributions from state, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member, state, and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member and investment earnings; there is one employer, Great Falls Transit, that contributes to the program.

The board is a discretely presented component unit responsible for the ten separate public employee retirement plans including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

A. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are only reported on the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements
The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

Governmental Fund Financial Statements
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are: licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements
The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds
General Fund – To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds
Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its

fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds
To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – These funds provide retirement, disability, death, and lump-sum payments to retirement plan members.

Private-Purpose Trust Funds – These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

Investment Trust – This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds – Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Major Governmental Funds
The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds
The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. (See Note 3).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted assets on the balance sheet because their use is limited by applicable bond indenture agreements.

I. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific trusts established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the Balance Sheet within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

J. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is $25,000. The capitalization threshold for infrastructure is $500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at $5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Revenue

Deferred revenue in the government-wide, proprietary fund, and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

N. Capital Leases

A capital lease is generally defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability is recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2004, was 2,172 hours. For fiscal year 2005, 5,601 hours were contributed to the sick leave pool and 6,185 hours were withdrawn leaving a balance of 1,588 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

Q. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

R. Fund Balance/Net Assets

The State reserves those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent

tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance for future debt service payments.

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reported restricted net assets (in thousands) of $2,399,699 of which $431,243 is restricted by enabling legislation.

S. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Accommodations	$ 9,957	$14,193	$ -	$ 24,150
Agriculture sales	-	3,125	-	3,125
Cigarette/tobacco	39,087	20,226	1,828	61,141
Fire protection	-	2,513	-	2,513
Insurance premium	57,090	-	-	57,090
Livestock	-	3,216	-	3,216
Other taxes	20,736	7,615	-	28,351
Public Service Commission	-	3,171	-	3,171
Telephone license	21,211	-	-	21,211
Video gaming	52,584	40	-	52,624
Total other taxes	$200,665	$54,099	$1,828	$256,592

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2005, the State implemented GASB Statement 40, Deposit and Investment Risk Disclosure, an amendment of GASB Statement 3. As a result, the disclosure related to deposit and investment risks were changed. These changes are reflected in Note 3.

GASB Statement 46, Net Assets Restricted by Enabling Legislation, an amendment of GASB 34, was early implemented with the year ended June 30, 2005. Statement 46 clarifies when net assets should be considered restricted based upon enabling legislation. In addition, the statement requires this portion of restricted net assets to be disclosed in the notes to the financial statements. Refer to Note 1, part R.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Net Assets, and related to various capital asset corrections and corrections made to adjust additional governmental fund revenue from the modified to the full accrual basis of accounting.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	$2,073,145
Equity in pooled investments	$7,470,748
Investments	$1,970,303

Carrying amounts for the bank balance for Cash Deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer‘s pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool, cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer’s pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer’s pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2005.

(2) All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments. The State invests in certain types of securities including: U.S. government direct-backed, U.S. government indirect-backed, corporate stock/bonds, foreign government bonds, municipals, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADRs), equity derivatives, venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations

explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADRs are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives "derive" their value from other equity instruments such as futures and options.

Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBOs) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company's current management team. Mezzanine investments are the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options. Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations.

Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely liquid.

Investments are presented in the Statement of Net Assets at fair value. Fair values for investment pool securities are determined primarily by reference to market prices supplied to the BOI by BOI's custodial bank, State Street Bank. Amortized cost represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. During the fiscal year, the State's agent loaned, on behalf of the State, certain securities held by the agent and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership during the loan period. At year-end, the BOI has no credit risk exposure to borrowers because the amount the BOI owes the borrowers exceed the amounts the borrowers owe the system.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 - Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	$ 24,250
Uninsured and uncollateralized cash	4,822
Undeposited cash	4,334
Cash in U.S. Treasury	205,163
Cash in MSU component units	3,387
Cash in UM component units	2,881
Less: outstanding warrants	(54,007)
Total cash deposits	$190,830

As of June 30, 2005, the carrying amount of deposits for component units was $94,686,731, as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the Treasurer's Cash Pool, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	Fund
Commercial paper	$1,249,527	A1	Various
Corporate fixed	49,821	A1+	Various
Corporate variable-rate	414,952	A1+	Various
Municipal variable-rate	6,000	NR	Various
Repurchase agreement (1)	22,000	A3	Various
Repurchase agreement (2)	16,542	NR	Various
Government direct-indirect	267,578	AAA	Various
Money market	33,120	NR	Various
Less: STIP included in pooled investment balance	(177,225)		
Total cash equivalents	$1,882,315		
Securities lending collateral investment pool	$ -		

(1) As of June 30, 2005, the State Street Bank repurchase agreement was collateralized at a fair value of $22 million by a $17.1 million par, 6.375% coupon, U.S. government Treasury bond maturing August 15, 2027.

(2) As of June 30, 2005, the U.S. Bank repurchase agreement, per contract, was collateralized at 102% for $16,874,485 by Federal Home Loan Mortgage Corporation REMICs maturing September 15, 2032 and November 12, 2033. These securities carry a AAA credit quality rating.

As of June 30, 2005, local governments invested $580,347,134 in STIP.

As of June 30, 2005, component units of the State of Montana had investments in cash equivalents with a book value and fair value of $303,233,562, as included in Table 2.

Investment Risk Disclosures
The investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk
Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investment's policy requires that STIP securities have the highest investment grade rating in the short-term category by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO).

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement 40.

STIP investments are categorized above to disclose credit risk as of June 30, 2005. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank, or the State's name.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The STIP Investment Policy Statement

does not specifically address concentration of credit risk. The policy does provide for "a minimum of three (3%) percent or $15 million, whichever is higher, to be invested in repurchase agreements." As of June 30, 2005, there were no single issuer investments that exceeded 5% of the STIP portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement 40, interest rate disclosures are not required for STIP, since STIP is a "2a-7-like pool".

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

While variable-rate (floating-rate) securities have credit risk identical to similar fixed-rate securities, their interest rate risk is more sensitive to interest rate changes. However, their fair value may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

Legal Risk

As of June 30, 2005, Montana was not aware of any legal risks regarding any investments.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), and Montana Private Equity Pool (MPEP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated "Prudent Expert Principle".

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Common Stock Pool	$1,264,857	$1,501,726
Equity Index Fund	1,039,696	1,132,427
DFA Small Cap Subtrust	177,282	243,808
MidCap Equity Index Fund	100,000	106,617
SPIFF	27,368	27,335
TFBP:		
Corporate bonds (rated)	624,288	665,537
Corporate bonds (unrated)	5,956	5,956
Foreign government bonds	9,924	10,435
Municipal government bonds (unrated)	6,122	6,123
U.S. government direct-backed	114,906	120,326
U.S. government indirect-backed	441,037	455,263
Repurchase agreement (rated)	3,308	3,308
STIP	64,747	64,747
RFBP:		
Corporate bonds (rated)	838,067	894,556
Corporate bonds (unrated)	19,289	19,538
Foreign government bonds	4,962	5,218
U.S. government direct-backed	180,694	188,790
U.S. government indirect-backed	587,411	605,801
Repurchase agreement	9,924	9,924
STIP	112,478	112,478
MTIP:		
BGI MSCI Europe Index	384,025	466,247
BOI MSCI Pacific Index	40,005	50,628
DFA International Small Company	75,484	76,554
SPIFF	2,123	2,111
Schroder Investment Management	120,403	137,134
Pyford International	124,335	149,790
Nomura Asset Management USA	93,755	111,054
MPEP:		
Private equities	240,230	265,011
State Street SPIFF	32,151	32,180
Repurchase agreement	447	447
Total pooled investments	6,745,274	7,471,070
Pool adjustments (net)	(322)	(322)
Total equity in pooled investments	$6,744,952	$7,470,748

At June 30, 2005, the carrying and fair value of the underlying securities on loan was $412,925,435 and $428,862,484, respectively. The collateral provided for the securities on loan totaled $441,186,614.

As of June 30, 2005, component units of the State of Montana had equity in pooled investments with a book value of $4,410,568,229 and a fair value of $6,154,858,281, as included in Table 3.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the pool fixed income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires pool fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the previous table are provided by S& P's rating services. If an S&P rating is not available, a Moody's rating has been used.

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the board. The TFBP holds a $2 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013 and a $3 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. The RFBP holds $3 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013, a $1.971 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2011 and a $6 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. Due to a weak credit outlook and potential bankruptcy, the board stopped the interest income accruals after the December 2004 and February 2005 pay dates. Although the interest accruals were stopped, the board received the interest due in June 2005 and August 2005. The combined book value of these securities was $15,943,652 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the book values were reduced to $7,985,500.

As of June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the board. The TFBP held a $10,757,539 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020, a $3,901,307 par 7.935% Northwest Airlines Inc. MBIA Insurance Corp insured bond maturing April 1, 2019 and a $9,255,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The combined book value of these securities was $23,611,399 as of June 30, 2005. The RFBP held a $9,930,036 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020, a $7,802,614 par 7.935% Northwest Airlines Inc. MBIA Insurance Corp. insured bond maturing April 1, 2019 and a $5,745,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The combined book value of these securities was $22,989,339 as of June 30, 2005. On September 14, 2005, the company filed for Chapter 11 bankruptcy protection. Due to this action, the board stopped the interest income accruals for the 6.81% bonds maturing February 1, 2020 after the August 2005 pay date. These issues were sold on September 20, 2005, generating a loss of $809,221 and $642,183, for TFBP and RFBP respectively. The sale included accrued interest from August 1, 2005 to September 20, 2005. Since the 7.935% bonds maturing April 1, 2019 is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance, the board did not stop the interest income accrual or reduce book value. The 4.64% bonds maturing July 7, 2010 is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2005, Burlington Industries, Inc. presented a legal and higher credit risk to the board. TFBP owns a Burlington Industries, Inc., $4 million par, 7.25% bond maturing September 15, 2005. RFBP owns a Burlington Industries, Inc., $6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for these issues were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the TFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $3,739,760 to $1,600,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $800,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the TFBP received $969,974 in August 2004 for its unsecured claim. This transaction reduced the book value to $0 and generated a gain of $169,974. In February 2005 and May 2005, the TFBP received an additional $139,180 and $129,498, respectively, for its unsecured claim. During fiscal year 2001, the RFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $5,609,640 to $2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the RFBP received $1,454,961 in August 2004 for its unsecured claim. This transaction reduced the book value to $0 and generated a gain of $254,961. In February 2005 and May 2005, the RFBP received an additional $208,771 and $194,247, respectively, for its unsecured claim. Both the TFBP and RFBP are expected to receive additional proceeds over the next two to three years.

As of June 30, 2004, Winn Dixie presented a higher credit risk to the board. The TFBP held a Winn Dixie Trust, $64.509 million par, zero coupon bond maturing September 1, 2024. Due to a weak credit outlook and collateral uncertainty, the board stopped accruing income and reduced the book value to $4.8 million in February 2004. On February 21, 2005, Winn Dixie declared bankruptcy. On February 28, 2005, the board sold the bonds and recorded a $4.231 million gain. The RFBP held a Winn Dixie Trust, $70 million par, zero coupon bond maturing September 1, 2024. Due to a weak credit outlook and collateral uncertainty, the board stopped accruing income and reduced the book value to $5.2 million in February 2004. On February 21, 2005, Winn Dixie declared bankruptcy. On February 28, 2005, the board sold the bonds and recorded a $4.6 million gain.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all the fixed income securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

According to the TFBP and RFBP investment policies, "with the exception of U.S. government indirect-backed (agency) securities, additional TFBP or RFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". As of June 30, 2005, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 8.19%. As of June 30, 2005, the RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 6.21%.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TFBP and RFBP investment pool policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk. This information, as provided by our custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs, and ARMs)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

As reported in the U.S. government indirect-backed category, the TFBP portfolio holds REMICs totaling $113,944 at amortized cost as of June 30, 2005. The RFBP portfolio holds REMICs totaling $554,309 in amortized cost as of June 30, 2005. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

In regard to RFPB, the Interest Only (IO) securities are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities. The IO REMIC securities purchased in August and September 1992 are being reduced periodically towards zero according to the expected average life of the underlying mortgages. The IO securities amortized cost is $3 as of June 30, 2005.

The TFBP holds one inverse variable-rate corporate $15 million par bond. The RFBP holds one inverse variable-rate corporate $25 million par bond. The quarterly coupon is calculated at a set rate less the 12-month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2005, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

TFBP
Credit Quality Rating and Effective Duration as of June 30, 2005
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 665,537	A-	5.42
Corporate bonds (unrated)	5,956	NR	2.12
Foreign government bonds	10,435	BBB	6.67
Municipal government bonds	6,123	NR	2.58
U.S. government direct-backed	120,326	AAA	6.14
U.S. government indirect-backed	455,263	AAA	3.86
State Street repurchase agreement (rated) (1)	3,308	AA-	NA
Total investments	$1,266,948	AA-	4.91
Securities lending collateral investment pool	$ 159,415	NR	NA

(1) At June 30, 2005, the State Street Bank repurchase agreement was collateralized at $3,389,890 by a AAA-rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2005
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 894,556	A-	5.75
Corporate bonds (unrated)	19,538	NR	4.07
Foreign government bonds	5,218	BBB	6.67
U.S. government direct-backed	188,790	AAA	4.50
U.S. government indirect-backed	605,801	AAA	3.91
State Street repurchase agreement (rated) (1)	9,924	AA-	NA
Total fixed income investments	$1,723,827	AA-	4.95
Securities lending collateral investment pool	$ 214,243	NR	NA

(1) At June 30, 2005, the State Street Bank repurchase agreement was collateralized at $10,169,671 by a AAA-rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Several MPEP investments represent limited partnership investments in various foreign countries. Per GASB Statement 40, no foreign currency risk disclosure is required for these limited partnership investments. As provided for in the partnership agreements, currency exposures may be hedged, partially or fully, at the discretion of the manager to preserve the U.S. dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments is not authorized.

The U.S. dollar balances of the MTIP cash and investments are disclosed by currency in the following table.

MTIP
Cash by Currency
(in thousands)

	2005	
Cash	**Carrying Amount**	**Fair Value**
Australian Dollar	$ 132	$ 130
Hong Kong Dollar	125	125
Japanese Yen	1,459	1,438
South Korean Won	4	4
Malaysian Ringgit	7	7
New Zealand Dollar	70	68
Philippine Peso	3	3
Singapore Dollar	1	1
New Taiwan Dollar	195	193
Total cash	$1,996	$1,969

The MTIP, through the funds below, has significant investments in 19 foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the funds in which MTIP is invested.

MTIP
Investment by Security Type
(in thousands)

	2005	
Security Investment Type	**Carrying Amount**	**Fair Value**
BGI MSCI Europe Index	$384,025	$466,247
BOI MSCI Pacific Index	40,005	50,628
DFA International Small Company	75,484	76,554
SPIFF	2,123	2,111
Schroder Investment Management	120,403	137,134
Pyford International	124,335	149,790
Nomura Asset Management U.S.A., Inc.	93,755	111,054
Total investments	$840,130	$993,518
Securities lending collateral investment pool	$ 34,537	$ 34,537

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. Long-term investments are administered by the following agencies:

Long-term Investments

Department	Percent Administered
Board of Investments	66.87%
PERA (Public Employee Retirement Administration)	14.85
Board of Housing	12.63
Montana State University/University of Montana	3.32
Other (1)	2.33
Total	100.00%

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, and the Department of Public Health and Human Services.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value	Credit Quality Rating	Effective Duration
Rated investments:				
AOF Corporate bonds	$ 338,017	$ 344,153	A	3.83
AOF U.S. Govt direct-backed	31,672	32,670	AAA	3.35
AOF U.S. Govt indirect-backed	398,645	407,110	AAA	2.74
Total	$ 768,334	$ 783,933		2.99
MUS Workers Compensation	$ 1,594			
Municipal bonds		$ 251	AA	1.31
Municipal bonds		244	AA+	2.01
Municipal bonds		1,060	AAA	1.27
Total		$ 1,555		
Non-rated/direct investments:				
Primary government				
Govt securities	$ 43,011	$ 42,466		
Component units/fiduciary funds				
Govt securities	$ 267,550	$ 272,616		
Other equities	227,795	236,126		
Repurchase agreement	10,350	10,350		
Deferred compensation	227,637	239,143		
Defined contribution	21,462	24,948		
VEBA	490	494		
Investments of MSU component units	112,244	112,244		
Investments of UM component units	136,143	136,143		
Real estate	16,316	16,474		
Mortgages	92,939	93,811		
Total	$1,155,937	$1,184,815		
Total investments	$1,925,865	$1,970,303		
Securities lending collateral investment pool	$ 200,025	$ 200,025	NR	NA

The PERS-DCRP and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC). The third party record keeper, Great West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a rate of return. The PERS-DCRP fixed money is invested in a PIMCO mutual fund. The minimum average portfolio quality must be an A rating; the minimum issue quality must be a BB-rating; and the minimum commercial paper quality must be A2/P2. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. VEBA investments are made in mutual fund equities and mutual fund fixed-income funds.

Investment Risk Disclosures
The investment risk disclosures are described in the following paragraphs and are identified by the specific securities to which they pertain, when applicable.

Credit Risk
Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the AOF fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's and/or Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the following table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date.

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005, all the fixed-income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are registered in the name of the Montana Board of Investments. The US Bank Municipal Investors Account, State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 19 remaining BOI investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent in any one name except AAA rated issues will be limited to 6%. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies are excluded from the concentration of credit risk requirement. As of June 30, 2005, Montana had concentration of credit risk exposure to Federal Home Loan Banks of 7.58% and to Federal National Mortgage Association of 9.44%.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Specific Legal and Credit Risk
As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the board. The AOF portfolio holds a $10 million par 6.417% Delta Airlines Corp. bond maturing July 2, 2012. The book value of this security was $9,968,673 as of June 30, 2005. This issue is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance. The company filed for Chapter 11 bankruptcy protection on September 14, 2005. Since this issue is insured, the board did not stop interest income accrual or reduce the book value.

As of June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the board. The AOF portfolio held a $4,137,515 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020. The book value of this security was $4,084,548 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the board stopped the interest income accruals after the August 2005 pay date. This issue was sold on September 20, 2005, generating a loss of $358,311. The sale included accrued interest from August 1, 2005 to September 20, 2005.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2005, follows (amounts in thousands):

A. Receivables

	Governmental Funds					
Receivables	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	$ 8,116	$ 357	$ -	$ -	$ -	$ -
Taxes	177,303	47,256	-	5,372	-	1,444
Charges for services/ fines/forfeitures	51	8,443	2,802	-	-	-
Investment income	2,162	4,994	-	4,067	5,468	3,299
Contributions/premiums	-	-	-	-	-	-
Other	6,924	10,315	7,143	-	-	785
Total receivables	194,556	71,365	9,945	9,439	5,468	5,528
Less: allowance for doubtful accounts	(8,903)	(6,316)	(1,960)	-	-	-
Receivables, net	$185,653	$65,049	$ 7,985	$9,439	$5,468	$5,528

	Proprietary Funds			
Receivables	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	$ -	$ -	$14,467	$ 166
Investment income	-	10,309	20	33
Contributions/premiums	7,155	-	3,410	3,351
Other	-	-	133	353
Total receivables	7,155	10,309	18,030	3,903
Less: allowance for doubtful accounts	(3,724)	-	(203)	-
Receivables, net	$ 3,431	$10,309	$17,827	$3,903

B. Payables

	Governmental Funds					
Payables	**General Fund**	**State Special Revenue**	**Federal Special Revenue**	**Coal Severance Tax Permanent**	**Land Grant Permanent**	**Nonmajor Governmental**
Refunds	$ 82,699	$ -	$ -	$-	$ -	$ -
Tax distributions to other govt	-	33,995	-	-	-	-
Vendors/individuals	42,568	44,134	77,634	-	-	1,763
Payroll	11,702	12,437	5,101	-	-	40
Accrued interest	-	-	-	-	5,344	218
Other	490	4,149	1,916	-	-	81
Total	$137,459	$94,715	$84,651	$-	$5,344	$2,102

	Proprietary Funds			
Payables	**Unemployment Insurance**	**Economic Development Bonds**	**Nonmajor Enterprise**	**Internal Service**
Vendors/individuals	$342	$ 1	$5,511	$4,872
Payroll	-	10	497	2,012
Accrued interest	-	905	5	6
Total	$342	$916	$6,013	$6,890

NOTE 5. CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2005, are reflected in the following table (in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	$ 315,721	$ 47,061	$ (7,925)	$ 354,857
Construction work in progress	179,069	189,268	(166,401)	201,936
Capitalized collections	70,021	12	-	70,033
Total capital assets, not being depreciated	564,811	236,341	(174,326)	626,826
Capital assets, being depreciated				
Infrastructure	2,947,719	346,156	(28,486)	3,265,389
Land improvements	11,947	5,163	(714)	16,396
Buildings/improvements	328,819	39,600	(2,128)	366,291
Equipment	245,908	34,603	(23,374)	257,137
Other	3,395	153	-	3,548
Total capital assets, being depreciated	3,537,788	425,675	(54,702)	3,908,761
Less: accumulated depreciation for:				
Infrastructure	(1,410,841)	(158,912)	90,285	(1,479,468)
Land improvements	(1,462)	(770)	89	(2,143)
Buildings/improvements	(149,649)	(11,698)	509	(160,838)
Equipment	(148,976)	(18,846)	10,875	(156,947)
Other	(2,980)	(206)	4	(3,182)
Total accumulated depreciation	(1,713,908)	(190,432)	101,762	(1,802,578)
Total capital assets, being depreciated, net	1,823,880	235,243	47,060	2,106,183
Intangible assets	20,437	70,265	(18,053)	72,649
Governmental activity capital assets, net	$ 2,409,128	$ 541,849	$(145,319)	$ 2,805,658

Primary Government *(continued)*

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	$ 800	$ -	$ -	$ 800
Construction work in progress	254	613	-	867
Total capital assets, not being depreciated	1,054	613	-	1,667
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	1,387	1,943	(987)	2,343
Buildings/improvements	6,098	-	-	6,098
Equipment	9,876	262	(76)	10,062
Total capital assets, being depreciated	18,245	2,205	(1,063)	19,387
Less: accumulated depreciation for:				
Infrastructure	(488)	(17)	-	(505)
Land improvements	(1,101)	(18)	988	(131)
Buildings/improvements	(3,524)	(593)	363	(3,754)
Equipment	(6,202)	(1,503)	50	(7,655)
Total accumulated depreciation	(11,315)	(2,131)	1,401	(12,045)
Total capital assets, being depreciated, net	6,930	74	338	7,342
Intangible assets	941	8	(288)	661
Business-type activity capital assets, net	$ 8,925	$ 695	$ 50	$ 9,670

Depreciation expense was charged to governmental functions as follows (in thousands):

	Amount
General government	$ 7,262
Public safety/corrections	4,663
Transportation (including depreciation of the highway system maintained by the State)	96,766
Health/social services	2,987
Education/cultural	553
Resource/recreation/environment (including depreciation of the State's dams).	5,690
Economic development/assistance	799
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	11,277
Total depreciation expense – governmental activities	$129,997

Depreciation expense was charged to business-type activities as follows (in thousands):

	Amount
Liquor Stores	$ 97
State Lottery	905
Economic Development Bonds	1
General Government Services	100
Prison Funds	605
Total depreciation expense – business-type activities	$1,708

B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

Discretely Presented Component Units

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	$ 4,240	$ 7,126	$ -	$ 11,366
Construction work in progress	12,033	13,365	2,661	28,059
Capitalized collections	7,780	15,271	-	23,051
Livestock for educational purposes	2,963	-	-	2,963
Total capital assets, not being depreciated	27,016	35,762	2,661	65,439
Capital assets, being depreciated				
Infrastructure	32,128	-	-	32,128
Land improvements	13,287	12,220	-	25,507
Buildings/improvements	294,928	329,912	-	624,840
Equipment	91,773	47,834	3,080	142,687
Other	57,412	48,031	-	105,443
Total capital assets, being depreciated	489,528	437,997	3,080	930,605
Less: accumulated depreciation	(275,160)	(234,741)	(2,047)	(511,948)
Total capital assets, being depreciated, net	214,368	203,256	1,033	418,657
Intangible assets	781	725	1,078	2,584
Capital assets (net) of MSU component units	7,566	-	-	7,566
Capital assets (net) of UM component units	-	4,967	-	4,967
Discretely presented component units				
Total capital assets, net	$ 249,731	$ 244,710	$ 4,772	$ 499,213

NOTE 6. RETIREMENT PLANS

Defined Contribution Plans

ORP – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System or the Public Employees Retirement System, benefit plans discussed in the next section. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Required employee contributions were 7.03% of salary; required employer contributions were 4.91% of salary, for a total of 11.9% of salary contributed to the ORP.

	TIAA-CREF *(in thousands)*
Covered payroll	$140,561
Total payroll	301,380
Employer contributions	$ 6,906
Percent of covered payroll	4.91%
Employee contributions	$ 9,882
Percent of covered payroll	7.03%

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, Chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

The PERS-DCRP has received a long-term loan through the Montana Department of Administration, with the BOI to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. Five loan draws were taken in the total amount of $1,498,000. Interest repayments began immediately following the draws. Principal repayments began August 15, 2003, the year following the PERS-DCRP implementation date. The loan was renegotiated as a single sum in fiscal year 2004, to be repaid over a period of 15 years. The interest rate is variable and changes every February, impacting the interest due on the outstanding principal balance.

The PERS-DCRP previously reported an inter-entity loan in the amount of $114,000 that originated on August 18, 2003. The loan was repaid ahead of schedule in December 2004.

For information on the repayment schedules on the loan, please see the separately issued PERS-DCRP financial statements.

Deferred Compensation Plan

457 – Deferred Compensation Plan – The 457 plan was established in 1976 and is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2005, the net assets of the plan were $239,405,278.

The 457 plan is a voluntary, supplemental retirement savings plan. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable

emergency while still employed and must meet IRC-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

Defined Benefit Plans

A. General

The Public Employees Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans: Public Employees Retirement System (PERS-DBRP), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), Sheriffs Retirement System (SRS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plan. Separately issued financial statements can be obtained at 100 North Park, PO Box 200131, Helena, MT 59620-0131.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education and disability funds.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The plan prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements can be obtained at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

A summary of government employers participating in PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, PERS-DCRP, 457, and TRS by employer type at June 30, 2005, follows:

	Retirement Plan									
	PERS-DBRP	MPORS	FURS	SRS	HPORS	JRS	GWPORS	PERS-DCRP	457	TRS
Employers										
State agencies	35		1	1	1	1	5	27	35	8
Counties	55			55				46		
Cities/towns	95	22	14					40		
Colleges/universities	5						3	5	6	5
School districts	243							79	1	368
Other	97							33	2	
Total	530	22	15	56	1	1	8	230	44	381

B. Plan Descriptions

The State contributes to and/or administers ten plans in two categories: (1) the State as the single employer; and (2) the State as an employer contributor to cost-sharing, multiple-employer plans.

The number of years required to obtain vested rights varies among the plans. All plans provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the plans are included in the tables that follow.

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System – This plan, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Members or their survivors may be eligible for an annual supplemental lump sum payment distributed each September. Many factors must be considered for eligibility, including the number of year the recipient has received a benefit and the recipient's age. This lump-sum payment is funded by a registration fee of 25 cents per vehicle registration. The average payment in September 2005 was $2,369. This

enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) members.

JRS – Judges Retirement System – This plan, established in 1967 and governed by Title 19, Chapters 2 & 5 of the MCA, provides retirement benefits for all Montana judges of district courts, justices of the Supreme Court, and the Chief Water Judge.

(2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Plans

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – This mandatory plan, established in 1945 and governed by Title 19, Chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public plan.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2005, an additional funding rate of 1.58% of payroll would be required to fund the current and projected benefits from the Defined Benefit plan in accordance with GASB standards and state law.

MPORS – Municipal Police Officers Retirement System – The plan, established in 1974 and governed by Title 19, Chapters 2 & 9 of the MCA, covers all municipal police officers of first and second-class cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation.

As of July 1, 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the plan for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement plan. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service, and the DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – This plan, established in 1981 and governed by Title 19, Chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. It is a multiple-employer, cost-sharing defined benefit plan.

SRS – Sheriffs Retirement System – This plan, established in 1974 and governed by Title 19, Chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993 and all Montana sheriffs.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 2.69% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

GWPORS – Game Wardens & Peace Officers Retirement System – This plan, established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS, or MPORS plans.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it

is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 0.26% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

VFCA – Volunteer Firefighters Compensation Act – This compensation program, established in 1965 and governed by Title 19, Chapters 2 and 17 of the MCA, provides pension, disability and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas of the state. VFCA also provides limited medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation.

The 2003 Legislature amended the law so that members of the VFCA can accumulate more than 20 years of service beginning when they are age 55, if they already have 20 years of service (effective July 1, 2003).

TRS – Teachers Retirement System – This mandatory plan, established in 1937 and governed by Title 19, Chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The plan's actuary has determined that as of July 1, 2005, the current employer contribution rate of 7.47% plus the General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost. The unfunded actuarial accrued liability of $903.3 million is included in the Schedules of Funding Progress. Based on the results of the July 1, 2005 valuation, the TRS Board will recommend options to the Legislature that are considered necessary to remain actuarially sound.

In addition, because actuarial gains and losses are smoothed over five years, only one-fifth of each previous year's actuarial loss has been recognized in the amortization period as of July 1, 2005, leaving almost $10 million in unrecognized investment losses, which must be recognized over the next three to four years. Therefore, to remain actuarially sound for future years, the retirement plan will need to incur future gains that would result from a significant recovery in the investment market, a reduction in liabilities, additional increases in contribution rates, or any combination thereof.

A brief summary of contribution rates, eligibility and benefits for each retirement plan is provided in the tables on the following three pages.

Schedule of Contribution Rates
Fiscal Year 2005

Plan	Member	Employer	State
PERS-DBRP	**6.9%** [19-3-315, MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund [19-3-319, MCA]
MPORS	**5.8%** - hired on or before 6/30/1975 & not electing GABA [19-9-710(a), MCA] **7.0%** - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA] **8.5%** - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710(c), MCA] **9.0%** - hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA]	**14.41%** [19-9-703, MCA]	**29.37%** of salaries – paid from the General Fund [19-9-702, MCA]
FURS	**9.5%** - hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA] **10.7%** - hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA]	**14.36%** [19-13-605, MCA]	**32.61%** of salaries – paid from the General Fund [19-13-604, MCA]
SRS	**9.245%** [19-7-403, MCA]	**9.535%** [19-7-404, MCA]	
HPORS	**9.0%** - hired prior to 7/1/1997 & not electing GABA **9.05%** - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	**26.15%** [19-6-404(1), MCA] **10.18%** of salaries – paid from driver license fees [19-6-404(2), MCA]	
JRS	**7.0%** [19-5-402, MCA]	**25.81%** [19-5-404, MCA]	
GWPORS	**10.56%** [19-8-502, MCA]	**9.0%** [19-8-504, MCA]	
VFCA			**5.0%** of fire insurance premiums, paid by the General Fund [19-17-301, MCA]
PERS-DCRP	**6.9%** [19-3-315, MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund [19-3-319, MCA]
TRS	**7.15%** [19-20-602, MCA]	**7.47%** [19-20-605, MCA]	**0.11%** of members' salaries [19-20-604, MCA]

Summary of Eligibility and Benefits

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
PERS-DBRP	Highest average compensation during any consecutive 36 months	Service retirement: 30 years, any age; Age 60, 5 years of service; or Age 65, regardless of service Early retirement, actuarially reduced: Age 50, 5 years of service; or Any age, 25 years of service	5 years membership service
MPORS	Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired after 6/30/1977 – average monthly compensation for last consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
FURS	Hired prior to 7/1/1981 and not electing GABA – final monthly compensation (FMC); hired after 6/30/1981 and those electing GABA – final average compensation (FAC) for last 36 consecutive months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
SRS	Highest average compensation during any consecutive 36 months	20 years, regardless of age; age 50, 5 years of service, actuarially reduced	5 years membership service
HPORS	Highest average compensation during any consecutive 36 months	20 years of service, regardless of age; 5 years of service, actuarially reduced from age 60	5 years membership service
JRS	Hired prior to 7/1/1997 and non-GABA – monthly compensation at time of retirement; hired after 6/30/1997 or electing GABA – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Age 60, 5 years of service; any age with 5 years of service – involuntary termination, actuarially reduced	5 years membership service
GWPORS	Highest average compensation during any consecutive 36 months	Age 50, 20 years of service; age 55, 5 years of service	5 years membership service
VFCA		Age 55, 20 years of credited service (full benefit); age 60, 10 years of service (partial benefit). As of 4/25/2005 (Senate Bill 197), members may retire with greater than 20 years of service, but not more than 30 years of service.	10 years of service credit
PERS-DCRP		Termination of service	Immediate for member's contributions and attributable income; 5 years for employer's contributions and attributable income
TRS	Final average compensation during any consecutive 36 months	Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits.	5 years

Summary of Eligibility and Benefits *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	Less than 25 years of service: 1.785% of HAC per year of service credit; 25 years of service or more: 2% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	
MPORS	2.5% of FAC per year of service	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed officer in the city that the member was last employed.
FURS	Members hired prior to 7/1/1981 and not electing GABA are entitled to the greater of: 2.5% of FAC per year of service; or (1) if less than 20 years of service, 2% of FMC for each year of service; or (2) if more than 20 years of service, 50% of the member's FMC plus 2% of the member's FMC for each year of service over 20 years. Members hired after 6/30/1981 and those electing GABA receive 2.5% of FAC per year of service.	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of service credit).
SRS	2.5% of HAC per year of service	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	
HPORS	2.5% of HAC per year of service	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	Hired prior to 7/1/1997 – monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.
JRS	3 1/3% of current salary (non-GABA) or HAC (GABA) per year of service for the first 15 years, plus 1.785% per year for each year after 15 years	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other benefit adjustments to the members.	Hired prior to 7/1/1997 – current salary is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.
GWPORS	2.5% of HAC per year of service	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	
VFCA	$7.50 per year of credited service, maximum $150; if greater than 20 years of service (but not more than 30 years), maximum $225		
PERS-DCRP	varies		
TRS	1.6667% of average final compensation (AFC) per year of service		

C. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refund distributions are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the defined benefit retirement plans. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement plans have no investments with a single issuer whose fair value equals 5% or more of the retirement plans net assets available for benefits.

E. Long-term Contracts for Contributions

The Montana Legislature also provided a provision of the Employee Protection Act (EPA) (MCA 19-2-706, allowing state and university system employees, eligible for a service retirement, whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1 for 5" additional service. As of June 30, 2005, 323 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2005 were $154,058. June 30, 2005, outstanding balances were $68,549.

F. Actuarial Data

Actuarial valuations are normally performed every two years. An additional valuation was performed July 2005, to provide the Legislature with updated information on the funding issue. Further disclosure can be found in Note 18.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Plans, the following postemployment benefits are provided:

The State and the Montana University System provide 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2005, 77 certificate holders were receiving these benefits for the State of Montana, 109 for the Montana University System.

In accordance with MCA 2-18-704, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement plan (See Note 6). Administratively established retiree medical premiums vary between $195 and $625 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $28.60 and $46.60, and vision premiums vary between $8.44 and $21.94 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2005, there were 3,256 retirees covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. Vision services are provided at prices ranging from a $10 copay to a $120 allowance depending on the services obtained and the network status of the provider. Vision coverage is fully insured; therefore premium contributions reflect the total cost to the State during the year. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs. During the fiscal year, expenditures of $20,241,412 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to $15,043,619 leaving $5,197,793 of claims paid in excess of premium revenue received by the State.

In accordance with MCA 2-18-702, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least five years. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Administratively established premiums vary between $235 and $580 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual $575 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 65% to 80% of the first $10,000 in medical claims and 100% thereafter. After a $400 deductible for Medicare-eligible retirees, the plan reimburses 65% to 80% for the first $5,000 in medical claims and 100% thereafter. There is an optional $1500 deductible plan available to retirees with a reduced premium. This plan has a small enrollment (54 enrollees). After the $1500 annual deductible, the plan pays 65% to 80% of the first $8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2005, 1,361 retirees were enrolled in the MUS plan.

Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2005, estimated expenditures of $6,801,059 were recognized for postemployment health care benefits. Of this amount, $6,232,468 was paid by retirees through premiums, and the balance of $568,591 was paid by the MUS.

NOTE 8. RISK MANAGEMENT

There are four primary government public entity risk pools that are reported within the enterprise fund type and two component unit public entity risk pools. Primary government pools include Hail Insurance, Subsequent Injury, the Montana University System (MUS) Group Benefits Plan, and the Montana University System Workers Compensation funds; component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,437 policies during the 2005 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

The fund recorded a liability of $191,013 based on estimated claims through June 30, 2005. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period. In Montana, there are 3,609 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2005, the amount of this liability was estimated to be $2,665,050.

(3) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, and vision insurance. Blue Cross/Blue Shield of Montana is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services and Peak administers claims for the two other managed care plans. Managed Care Montana has a contract for utilization management: the utilization management program consists of hospital pre-authorization, case management, and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Buck Consultants and estimated to be $4,619,167 as of June 30, 2005, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(4) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers compensation coverage under Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers compensation coverage through the State Compensation Insurance Fund. The program is self-insured for workers compensation claims to a maximum of $500,000 per each occurrence. Losses in excess of $500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $500,000. During 2005, the program ceded $196,776 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of $3,138,095 for estimated claims in 2005. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(5) State Compensation Insurance (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2005, approximately 27,527 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2005, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2005, $511,600,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2005, was $1,300,000. For the fiscal year ended June 30, 2005, $1,100,000 of acquisition costs were amortized.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

(6) State Compensation Insurance (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2005, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2005, $104,900,000 of unpaid claims and claim adjustment expenses were reported at a net present value of $79,100,000, discounted at a 5.0% rate.

(7) Changes in Claims Liabilities For the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Primary Government					
	Hail Insurance		Subsequent Injury		MUS Group Benefits	
	2005	2004	2005	2004	2005	2004
Unpaid claims and claim adjustment expenses at beginning of year	$ 95	$ 298	$2,363	$2,364	$ 4,663	$ 3,444
Incurred claims and claim adjustment expenses: provision for insured events of the current year	1,978	1,164	-	-	37,533	35,451
Increase (decrease) in provision for Insured events of prior years	(285)	(184)	668	205	(44)	1,219
Total incurred claims and claim adjustment expenses	1,693	980	668	205	37,489	36,670
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(1,502)	(885)	(31)	(29)	(37,533)	(35,451)
Claims and claim adjustment expenses attributable to insured events of prior years	(95)	(298)	(335)	(177)	-	-
Total payment	(1,597)	(1,183)	(366)	(206)	(37,533)	(35,451)
Total unpaid claims and claim adjust. exp. at end of the year	$ 191	$ 95	$2,665	$2,363	$ 4,619	$ 4,663

	Primary Government		Component Units			
	MUS Workers Compensation Program		State Compensation Insurance (New Fund)		State Compensation Insurance (Old Fund)	
	2005	2004	2005	2004	2005	2004
Unpaid claims and claim adjustments expenses at beginning of year	$1,622	$ -	$452,115	$413,400	$108,500	$113,181
Incurred claims and claim adjustment expenses: Provision for insured events of the current year	2,366	2,174	149,542	136,059	-	-
Increase (decrease) in provision for insured events of prior years	-	-	10,070	13,568	6,691	8,215
Total incurred claims and claim adjustment expenses	2,366	2,174	159,612	149,627	6,691	8,215
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(382)	(552)	(25,721)	(34,575)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(468)	-	(74,449)	(76,337)	(10,339)	(12,896)
Total payments	(850)	(552)	(100,170)	(110,912)	(10,339)	(12,896)
Total unpaid claims and claim adjust. exp. at end of the year	$3,138	$1,622	$511,557	$452,115	$104,852	$108,500

(8) Risk Management Trend Information – The following tables only present risk management trend information for the State Compensation Insurance (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

	MUS Workers Compensation Program	
	2004	**2005**
1. **Premiums and investment revenue**		
Earned	$2,425	$3,048
Ceded	151	197
Net earned	$2,274	$2,851
2. **Unallocated expenses including overhead**	$ 227	$ 280
3. **Estimated losses and expenses end of accident year**		
Incurred	$2,174	$2,366
Ceded	-	-
Net incurred	$2,174	$2,366
4. **Net paid (cumulative) as of:**		
End of policy year	$ 552	$ 382
One year later	1,020	-
5. **Re-estimated ceded losses and expenses**	$ -	$ -
6. **Re-estimated net incurred losses and expense:**		
End of policy year	$2,174	$2,366
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ -	$ -

(State Compensation Insurance (New Fund) Table presented on next page)

State Compensation Insurance (New Fund)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1. **Premiums and investment revenue**										
Earned	$137,914	$105,177	$90,544	$82,436	$91,220	$116,056	$129,353	$165,581	$172,961	$162,861
Ceded	519	348	303	260	855	2,952	(465)	5,654	6,563	6,788
Net earned	$137,395	$104,829	$90,241	$82,176	$90,365	$113,104	$129,818	$159,927	$166,398	$156,073
2. **Unallocated expenses including overhead**	$ 17,451	$ 12,622	$14,444	$19,050	$22,101	$ 26,867	$ 29,528	$ 32,830	$ 40,130	$ 44,865
3. **Estimated losses and expenses end of accident year**										
Incurred	$ 95,067	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	$ 95,067	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290
4. **Net paid (cumulative) as of:**										
End of policy year	$ 15,818	$ 12,589	$12,943	$13,723	$13,177	$ 14,140	$ 16,693	$ 22,982	$ 26,123	$ 25,721
One year later	32,890	28,451	28,222	29,976	29,218	32,888	38,185	48,861	50,888	
Two years later	42,361	35,706	35,753	39,298	37,555	45,218	52,359	63,773		
Three years later	47,283	39,860	41,004	45,748	43,649	55,248	60,029			
Four years later	50,267	43,105	44,478	49,984	48,322	61,486				
Five years later	52,791	46,478	47,584	54,212	52,027					
Six years later	54,962	48,505	50,188	56,974						
Seven years later	57,654	50,402	52,240							
Eight years later	59,193	52,285								
Nine years later	60,825									
5. **Re-estimated ceded losses and expenses**	$ -	$ 6,645	$ 609	$ 1,940	$ -	$ -	$ -	$ -	$ -	$ -
6. **Re-estimated net incurred losses and expense:**										
End of policy year	$ 95,067	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$127,883
One year later	88,923	67,235	64,308	64,348	66,421	71,094	86,799	110,532	112,609	
Two years later	77,286	59,054	60,467	66,660	66,662	81,053	91,241	112,443		
Three years later	73,864	60,811	61,989	69,345	70,302	88,157	94,615			
Four years later	74,022	64,439	64,944	72,435	72,492	92,329				
Five years later	73,197	59,079	67,312	73,710	73,423					
Six years later	74,329	60,528	67,772	73,537						
Seven years later	76,955	60,630	68,601							
Eight years later	76,849	60,774								
Nine years later	77,029									
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$(18,038)	$ (15,293)	$ 3,618	$10,893	$ 7,466	$ 24,061	$ 13,055	$ 2,290	$ (8,096)	$ (6,407)

B. Entities Other Than Pools

(1) Employee Group Benefits – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, and New West for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2005, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, were $11,675,008 based on a formula provided by Buck Consultants, a consulting actuarial firm, of which $9,328,724 is estimated to be paid in fiscal year 2006.

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure housing units. The State self-insures the $250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below $250,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects approximately $2.7 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $250,000 for earthquake and $250,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1994 through June 30, 2005, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2005, estimated claims liability is $20,327,474.

(3) Changes in Claims Liabilities For the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Benefits		Administration Insurance	
	2005	2004	2005	2004
Amount of claims liabilities at the beginning of each fiscal year	$ 11,195	$ 11,487	$25,558	$30,927
Incurred claims:				
Provision for insured events of the current year	76,725	70,164	6,356	7,723
Increases (decreases) in provision for insured events of prior years	480	(290)	(5,535)	(8,651)
Total incurred claims	77,205	69,874	821	(928)
Payments:				
Claims attributable to insured events of the current year	(70,299)	(64,699)	(819)	(816)
Claims attributable to insured events of prior years	(6,426)	(5,467)	(5,232)	(3,625)
Total payments	(76,725)	(70,166)	(6,051)	(4,441)
Total claims liability at end of each fiscal year	$ 11,675	$ 11,195	$20,328	$25,558

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2005, the Department of Transportation had contractual commitments of approximately $197.6 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2005, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $20.6 million for capital projects construction. The primary government will fund $7.2 million of these projects, with the remaining $13.4 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Fund. These commitments have expiration dates and may be extended according to the BOI's policies. As of June 30, 2005, the BOI had committed but not yet purchased $78,813,735 in loans from Montana lenders. In addition to the above commitments, lenders had reserved $28,884,945 for loans as of June 30, 2005.

The BOI makes firm commitments to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2005, the BOI had committed but not yet purchased from Montana lenders, mortgages totaling $2,145,343. As of June 30, 2005, mortgage reservations totaled $1,683,900.

D. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

	Amount
Enterprise funds	
Prison Industries	$ 421
Liquor Warehouse	162
Historical Society Publications	15
MUS Group Insurance	2
Subtotal-enterprise funds	$ 600
Internal service funds	
Buildings and Grounds	$ 578
FWP Equipment	129
Investment Division	64
Admin Supply	59
DEQ Indirect Cost Pool	35
Commerce Central Services	13
Other Internal Services	1
Subtotal-internal service funds	$ 879
Total	$1,479

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2005, were as follows (in thousands):

	Primary Government	Discretely Presented Component Units		
Fiscal Year Ending June 30	Governmental Activities	Montana State University	University of Montana	Total
2006	$1,029	$29	$241	$270
2007	784	20	214	234
2008	295	1	70	71
2009	151	-	39	39
2010	129	-	1	1
2011-2015	645	-	-	-
Total minimum pmts	3,033	50	565	615
Less: interest	(328)	(9)	(66)	(75)
Present value of minimum payments	$2,705	$41	$499	$540

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2005 totaled $12,561,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2006	$14,368	$ 1,470
2007	10,484	1,117
2008	9,238	1,032
2009	8,437	861
2010	6,965	716
2011-2015	25,255	3,380
2016-2020	8,632	2,009
2021-2025	522	-
Total future rental payments	$83,901	$10,585

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued. No revenue anticipation notes were issued during fiscal year 2005.

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $120 million as amended by the 2003 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from repayments of principal and interest on loans made by the BOI to participating eligible governmental units, investment income under the indenture, and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2005, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2005
1994	7,500	$ 6,810
1995	7,500	6,995
1997	10,000	9,690
1998	12,500	12,285
2000	15,000	15,000
2003	15,000	15,000
2004	18,500	18,500
Total		$84,280

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2005 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$90,555	$-	$6,275	$84,280

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2005, were as follows (in thousands):

				Principal Payments		
Governmental Activities	**Series**	**Amount Issued**	**Interest Range (%) (1)**	**Fiscal Year 2006**	**In Year of Maturity (2)**	**Balance June 30, 2005**
General obligation bonds						
Energy Conservation Program (3)	1996A	$ 1,650	3.5-4.4	$ 195	195 (2006)	$ 195
Wastewater Treatment Works Revolving Fund (4)	1996C	2,765	3.75-5.75	140	120 (2017)	1,905
Renewable Resource Program (5)	1997A	2,000	6.8-8.0	125	90 (2012)	1,000
Long-Range Bldg Program	1997B	12,640	4.5-5.0	865	945 (2008)	2,715
Wastewater Treatment Works Revolving Fund (4)	1998A	3,510	3.75-5.15	145	260 (2019)	2,745
Long-Range Bldg Program	1998B	34,545	4.2-5.1	1,490	2,555 (2018)	25,550
Information Technology	1998C	41,390	4.5-5.0	3,750	4,075 (2008)	11,730
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	1,165	1,720 (2015)	14,060
Energy Conservation Program (3)	1998E	1,250	3.6-4.6	135	150 (2008)	425
Renewable Resource Program (5)	1999	1,035	6.0-6.5	60	105 (2015)	790
Long-Range Bldg Program	1999C	16,990	4.0-5.0	695	785 (2009)	2,950
Drinking Water Revolving Fund (4)	1998F	3,065	3.6-4.85	130	230 (2019)	2,465
Drinking Water Revolving Fund (4)	2000A	2,990	4.25-5.6	105	240 (2021)	2,605
Water Pollution Control Revolving Fund (4)	2000B	3,325	4.25-5.6	120	270 (2021)	2,905
Long-Range Bldg Program	2000C	17,195	5.0-5.55	610	800 (2011)	4,225
Information Technology	2000D	18,000	5.0-5.25	1,830	1,830 (2006)	1,830
Long-Range Bldg Program	2001B	11,430	4.1-5.75	415	830 (2021)	9,475
Information Technology	2001C	1,600	3.85-4.2	150	185 (2011)	1,000
Energy Conservation Program (3)	2001D	1,250	3.85-4.2	115	145 (2011)	775
Renewable Resource Program (5)	2001E	1,040	5.2-6.8	55	105 (2017)	900
Drinking Water Revolving Fund (4)	2001G	3,190	4.0-5.0	120	235 (2022)	2,870
Water Pollution Control Revolving Fund (4)	2001H	2,690	4.0-5.0	100	200 (2022)	2,415
Long-Range Bldg Program	2002B	10,475	3.35-4.7	415	730 (2023)	9,705
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	85	200 (2023)	2,355
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,285	1,685 (2014)	13,205
Long-Range Bldg Program	2003A	9,730	2.37-4.0	400	655 (2024)	9,410
Energy Conservation Program (3)	2003B	1,250	2.0-3.0	115	145 (2014)	1,145
Renewable Resource Program Refunding (5)	2003C	1,970	1.45-5.25	410	90 (2019)	1,530
Water Pollution Control Revolving Fund (4)	2003D	2,730	2.0-3.75	155	225 (2019)	2,585
Drinking Water Revolving Fund (4)	2003E	1,675	2.0-3.75	95	140 (2019)	1,585
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,105	2,310 (2017)	24,640
Information Technology Refunding	2003H	8,725	2.0-4.0	90	2,225 (2010)	8,560
Water Pollution Control Revolving Fund (4)	2004A	2,665	2.0-3.8	125	230 (2020)	2,665
Long-Range Bldg Program	2004B	3,125	3.0-4.75	130	170 (2025)	3,125
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	-	1,205 (2019)	14,945
Long-Range Bldg Program	2005B	1,670	3.25-4.3	-	120 (2026)	1,670
Energy Conservation Program (3)	2005C	2,500	3.25-4.0	-	290 (2016)	2,500
CERCLA Program (6)	2005D	2,000	3.25-4.3	-	140 (2026)	2,000
Drinking Water Revolving Fund (4)	2005F	3,875	4.0-4.75	-	350 (2021)	3,875
Water Pollution Control Revolving Fund (4)	2005G	2,110	4.0-4.75	-	190 (2021)	2,110
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	120	1,300 (2020)	10,055
Total general obligation bonds		$322,820		$18,045		$213,195

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2006	Principal Payments In Year of Maturity (2)	Balance June 30, 2005
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 845	1,820 (2022)	$ 21,555
Renewable Resource Program (8)	1997A	1,205	6.0-7.3	45	110 (2018)	950
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	110	210 (2018)	2,020
Renewable Resource Program (8)	2001A	420	3.65-5.59	15	30 (2021)	360
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	55	150 (2021)	1,550
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	1,345	790 (2013)	4,950
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,135	1,795 (2018)	18,380
Renewable Resource Program (8)	2001E	885	2.1-4.85	35	65 (2022)	790
Renewable Resource Program (8)	2001F	900	3.3-6.2	30	75 (2022)	820
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	570	970 (2019)	10,425
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	110	215 (2024)	2,890
Renewable Resource Program Refunding (8)	2004A	5,070	2.15-2.95	1,230	500 (2010)	4,860
Renewable Resource Program (8)	2004B	430	4.45-5.45	20	40 (2020)	430
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	4,960	11,315 (2020)	122,795
Total special revenue bonds		$210,145		$10,505		$192,775
Notes payable						
Water Conservation (Little Dry Project) (10)		$ 50	5.0	$ 2	1 (2012)	$ 16
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	24
Middle Creek Dam Project (11)		3,272	8.125	48	203 (2034)	2,838
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	9,561
Total notes payable		$ 14,672		$ 342		$ 12,439
Subtotal governmental activities, before deferred balances						418,409
Deferred amount on refunding						(6,322)
Unamortized discount						(158)
Unamortized premium						9,680
Total governmental activities		$547,637		$28,892		$421,609
Business-type Activities						
Bonds/notes payable						
Economic Development Bonds (13)						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	$ 4,976	6.60-7.75	$ 450	70 (2014)	$ 880
Conservation Reserve Enhancement Program (CRP Bonds) (15)		3,028	6.0-8.0	1,024	33 (2009)	3,028
Subtotal economic dev bonds		8,004		1,474		3,908
MUS Workers Compensation Bonds Payable		2,050	2.8	410	430 (2008)	1,260
Total business-type activities		$ 10,054		$ 1,884		$ 5,168

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

(4) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(5) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event there are not sufficient cost recovery payments.

(7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.

(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

(10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.

(11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes $224,944 of interest owed.

(12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

(13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.

(14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.

(15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2005, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 18,045	$ 8,283	$ 10,505	$ 9,914	$ 342	$ 47
2007	18,775	7,808	10,485	8,584	343	46
2008	19,335	7,056	10,500	8,196	345	45
2009	15,075	6,372	11,575	7,710	347	44
2010	15,620	5,774	11,620	7,202	349	43
2011-2015	69,420	20,286	62,415	27,808	1,781	200
2016-2020	46,890	6,793	70,865	11,575	1,878	168
2021-2025	9,775	756	4,810	356	1,973	130
2026-2030	260	6	-	-	2,098	83
2031-2035	-	-	-	-	2,114	24
2036-2040	-	-	-	-	869	-
Total	$213,195	$63,134	$192,775	$81,345	$12,439	$830

Business-type Activities

Year Ended June 30	Economic Development Bonds		MUS Workers Compensation Bonds	
	Principal	Interest	Principal	Interest
2006	$1,474	$251	$ 410	$35
2007	1,005	164	420	24
2008	1,051	97	430	12
2009	78	27	-	-
2010	50	21	-	-
2011-2015	250	40	-	-
Total	$3,908	$600	$1,260	$71

Debt service requirements of discretely presented component units at June 30, 2005, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 9,855	$ 38,874	$ 5,078	$ 4,101	$ 4,720	$ 6,762
2007	12,490	38,287	4,117	3,883	4,912	6,586
2008	13,175	37,790	3,468	4,960	5,099	6,421
2009	14,100	37,229	3,266	5,161	5,013	6,239
2010	14,450	36,607	3,265	5,185	4,800	6,057
2011-2015	86,055	171,862	21,754	18,844	27,213	27,028
2016-2020	110,505	148,162	29,390	11,108	33,949	19,858
2021-2025	141,465	115,980	19,445	4,960	42,475	9,291
2026-2030	178,310	73,592	6,295	2,331	7,300	1,703
2031-2035	149,075	27,830	6,710	872	3,135	296
2036-2040	24,715	4,124	-	-	-	-
2041-2045	6,950	482	-	-	-	-
Total	$761,145	$730,819	$102,788	$61,405	$138,616	$90,241

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2005, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	$219,645	$ 37,155	$ 43,605	$213,195	$18,045	$195,150
Special revenue bonds (2)	76,350	128,295	11,870	192,775	10,505	182,270
Notes payable (3)	12,850	-	411	12,439	342	12,097
	308,845	165,450	55,886	418,409	28,892	389,517
Deferred amount on refunding	(5,438)	(1,577)	(693)	(6,322)	-	(6,322)
Unamortized discount	(161)	-	(3)	(158)	-	(158)
Unamortized premium	1,880	8,106	306	9,680	-	9,680
Total bonds/notes payable	305,126	171,979	55,496	421,609	28,892	392,717
Other liabilities						
Lease/installment purchase payable (4)	2,313	1,311	919	2,705	885	1,820
Compensated absences payable (1)	75,005	37,332	38,934	73,403	38,925	34,478
Early retirement benefits payable (1)	215	-	161	54	6	48
Arbitrage rebate tax payable (1)	77	21	45	53	-	53
Estimated insurance claims (1)	36,753	83,561	88,311	32,003	16,264	15,739
Total other liabilities	114,363	122,225	128,370	108,218	56,080	52,138
Total governmental activities Long-term liabilities	$419,489	$294,204	$183,866	$529,827	$84,972	$444,855
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	$ 6,287	$ 177	$ 2,556	$ 3,908	$ 1,474	$ 2,434
MUS Workers Compensation	1,655	-	395	1,260	410	850
Total bonds/notes payable	7,942	177	2,951	5,168	1,884	3,284
Other liabilities						
Compensated absences payable	1,228	510	593	1,145	592	553
Arbitrage rebate tax payable	140	72	98	114	-	114
Estimated insurance claims	8,743	42,545	40,675	10,613	7,414	3,199
Total other liabilities	10,111	43,127	41,366	11,872	8,006	3,866
Total business-type activities Long-term liabilities	$ 18,053	$ 43,304	$ 44,317	$ 17,040	$ 9,890	$ 7,150

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

(2) Governmental activities special revenue bonds beginning balance has been reduced by $18,000 to reflect that the Little Dry Project loan has been reclassified to governmental activities notes payable.

(3) Governmental activities notes payable beginning balance has been increased by $43,000 to reflect that the Little Dry Project loan has been reclassified from governmental activities special revenue bonds in the amount of $18,000 and to reflect the Petrolia Project loan that existed prior to fiscal year 2005, but was not previously reported (in the amount of $25,000).

(4) Governmental activities lease/installment purchase payable beginning balance has been reduced by $19,000 to reflect a correction for lease balances reported incorrectly in fiscal 2004.

Long-term liability activity of discretely presented component units for the year ended June 30, 2005, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	$ 630,955	$216,360	$ 82,101	$ 765,214	$ 9,855	$ 755,359
Montana State University (MSU)	87,254	56,208	35,912	107,550	5,078	102,472
University of Montana (UM)	139,996	684	3,874	136,806	4,720	132,086
Total bonds/notes payable	858,205	273,252	121,887	1,009,570	19,653	989,917
Other liabilities						
Lease/installment purch pay	889	138	487	540	229	311
Compensated absences pay	42,774	21,324	19,341	44,757	19,600	25,157
Arbitrage rebate tax payable	1,024	281	43	1,262	443	819
Estimated insurance claims	532,893	168,282	110,509	590,666	121,189	469,477
Due to federal government	30,242	382	18	30,606	-	30,606
Total other liabilities	607,822	190,407	130,398	667,831	141,461	526,370
	$1,466,027	$463,659	$252,285	$1,677,401	$161,114	$1,516,287
Long-term liabilities of MSU component units					358	1,714
Long-term liabilities of UM component units					572	222
Total discretely presented component units Long-term liabilities					$162,044	$1,518,223

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2005, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on general obligation bonds: $1,590,000 of Series 1994B Wastewater Treatment Works Revolving Fund (these bonds were paid in full) and $315,000 of Series 1997A Renewable Resource Program.

DNRC also used current available resources to make the following pre-payments on special revenue bonds: $450,000 of Series 1996A Renewable Resource Program Refunding (this series was also refunded in the fiscal year – see below) and $210,000 of Series 2004A Renewable Resource Program Refunding.

Advance Refundings

On December 15, 2004, DNRC issued $5,070,000 of Series 2004A Renewable Resource Program Refunding special revenue bonds to advance refund $5,465,000 of Series 1996A Renewable Resource Program Refunding special revenue bonds. The net proceeds of $4,997,852 (after payment of $72,148 in underwriting fees and other issuance costs) plus an additional $499,317 of certain other available funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1996A bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of $318,403 and an economic gain of $240,775.

On February 1, 2005, the Department of Administration (DofA) issued $14,945,000 of Series 2005A General Obligation Long-Range Building Program Refunding bonds to advance refund $4,800,000 of Series 1997B Long-Range Building Program bonds, callable on August 1, 2007, maturing in 2008 and thereafter, and $10,170,000 of Series 1999C Long-Range Building Program bonds, callable on August 1, 2008, maturing in 2009 and thereafter. The net proceeds of $15,675,227 (including a reoffering premium of $933,116 and after payment of $202,889 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1997B Long-Range Building Program bonds, callable on August 1, 2007, maturing in 2008 and thereafter, and the Series 1999C Long-Range Building Program bonds, callable on August 1, 2008, maturing in 2009 and thereafter are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of $751,667 and an economic gain of $593,601.

On May 5, 2005, DofA issued $10,055,000 of Series 2005H General Obligation Long-Range Building Program Refunding bonds to advance refund $9,580,000 of Series 2000C Long-Range Building Program bonds callable on August 1, 2010, maturing in 2011 and thereafter. The net proceeds of $10,419,652 (including a reoffering premium of $501,926 and after payment of $137,274 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 2000C Long-Range Building Program bonds callable on August 1, 2010, maturing in 2011 and thereafter, are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of $495,341 and an economic gain of $387,885.

Deferred loss on primary government refundings at June 30, 2005, was $6,322,000.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2005, $60,670,000 of bonds outstanding are considered defeased.

Discretely Presented Component Units

Defeased Debt Outstanding

Montana State University and the University of Montana have defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2005, $4,355,000 and $47,236,073 of bonds outstanding are considered defeased for Montana State University and the University of Montana, respectively.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Primary Government

Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2005, industrial revenue bonds outstanding aggregated $204.6 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2005, QZAB debt outstanding aggregated $4.3 million.

Neither the industrial revenue bonds, nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2005, was as follows: Hershberger Project – issued $129,412, outstanding $122,178; Young Project – issued $223,300, outstanding $216,472.

Discretely Presented Component Units

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2005, revenue bonds outstanding aggregated $616 million, and notes payable outstanding aggregated $11 million.

The Board of Investments and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16.C. (miscellaneous contingencies) for more information.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also includes the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2005, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds
Due From Other Funds						
Coal Severance Tax Permanent	$ -	$ -	$ -	$ -	$ -	$ -
Economic Development Bonds	-	-	-	-	2,140	-
Federal Special Revenue	-	-	-	171	26	-
General Fund	6,421	1	614	-	65	8,754
Internal Service Funds	38	2	1,327	1,834	239	142
Nonmajor Enterprise Funds	-	-	6	93	9	-
Nonmajor Governmental Funds	-	-	574	6	-	-
State Special Revenue	-	-	659	14,294	29	71
Total	$6,459	$3	$3,180	$16,398	$2,508	$8,967

	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Unemployment Insurance	Total
Due From Other Funds *(continued)*					
Coal Severance Tax Permanent	$ 4	$ -	$ -	$ -	$ 4
Economic Development Bonds	-	26	1,529	-	3,695
Federal Special Revenue	-	-	355	65	617
General Fund	5	-	24,160	-	40,020
Internal Service Funds	12	-	1,881	-	5,475
Nonmajor Enterprise Funds	-	-	28	-	136
Nonmajor Governmental Funds	-	-	9	-	589
State Special Revenue	2,709	-	-	-	17,762
Total	$2,730	$26	$27,962	$65	$68,298

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2005, consisted of the following (in thousands):

	Interfund Loans Payable					
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Interfund Loans Receivable						
Federal Special Revenue	$ -	$ 100	$ -	$ -	$ 450	$ 550
General Fund	15,815	1,329	-	382	1,774	19,300
Internal Service Funds	436	-	146	-	25	607
Nonmajor Enterprise Funds	9	-	-	-	-	9
State Special Revenue	12,363	1,002	-	-	-	13,365
Total	$28,623	$2,431	$146	$382	$2,249	$33,831

C. Advances To/From Other Funds

Advances to/from other funds represents the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also includes the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2005, consisted of the following (in thousands):

	Advances From Other Funds					
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Total
Advances To Other Funds						
Coal Severance Tax Permanent	$ -	$ -	$ -	$ -	$44,241	$44,241
Economic Development Bonds		4,292		181	9,540	14,013
General Fund	40	-	-	-	60	100
Nonmajor Enterprise Funds	75	120	-	-	-	195
Nonmajor Governmental Funds	-	-	-	-	2,826	2,826
State Special Revenue	2,135	-	12,371	-	-	14,506
Total	$2,250	$4,412	$12,371	$181	$56,667	$75,881

Additional detail for certain advance payable balances at June 30, 2005, follows (in thousands):

Advances Payable to the Economic Development Bonds Fund under the INTERCAP Loan Program

Department	Balance
Administration	$ 181
Environmental Quality	905
Justice	8,547
Natural Resources and Conservation	88
Transportation	4,292
Total	$14,013

Advances Payable to the Coal Severance Tax Permanent Fund

Department	Balance
Justice	$ 2,345
Natural Resources and Conservation	41,896
Total	$44,241

D. Interfund Transfers

Routine transfers between funds are recorded to: (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

For the fiscal year ended June 30, 2005, two transfers occurred between the General Fund and the State Special Revenue Fund that are considered significant and non-routine. In accordance with the Fifty-Ninth Legislative Assembly, House Bill 745 appropriated a $13.6 million transfer from the General Fund to the State Special Revenue Fund for repayment of the Integrated Revenue Information System (IRIS) loan. As noted in the fiscal year 2004 CAFR, Note 18, this loan was deemed unconstitutional. The Department of Revenue used the transferred funds to repay the interfund advance to the Coal Severance Tax Permanent Fund. The second transfer was made in accordance with Senate Bill 87 of the Fifty-Ninth Legislative Assembly. This legislation required 50 percent of the money received from payments of property taxes or fees under protest to be transferred from the General Fund to a newly established centrally assessed property tax state special revenue fund.

Interfund transfers for the year ended June 30, 2005, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
Transfers Out						
Coal Severance Tax Permanent	$ -	$ -	$36,752	$ -	$ -	$ 1,294
Federal Special Revenue	-	-	-	450	3	8,998
General Fund	-	-	-	287	47	16,645
Internal Service Funds	-	-	-	-	-	31
Land Grant Permanent	-	-	-	-	-	795
Nonmajor Enterprise Funds	-	1	25,026	-	-	-
Nonmajor Governmental Funds	-	-	11	500	-	2,905
State Special Revenue	3,006	26	10,077	1,678	13	24,764
Unemployment Insurance	-	2,729	-	-	-	-
Total	$3,006	$2,756	$71,866	$2,915	$63	$55,432

	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Total
Transfers Out *(continued)*			
Coal Severance Tax Permanent	$ -	$ 8,824	$ 46,870
Federal Special Revenue	-	5,147	14,598
General Fund	-	27,459	44,438
Internal Service Funds	150	9	190
Land Grant Permanent	-	76,933	77,728
Nonmajor Enterprise Funds	-	3,965	28,992
Nonmajor Governmental Funds	-	18,254	21,670
State Special Revenue	-	-	39,564
Unemployment Insurance	-	-	2,729
Total	$150	$140,591	$276,779

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2005, (in thousands):

Fund Type/Fund	Deficit
Capital projects funds	
Federal/Private Construction Grants	$ (409)
Enterprise funds	
Subsequent Injury	$ (827)
Internal service funds	
Administration Insurance	$(9,710)
Administration Central Services	$ (29)
Justice Legal Services	$ (70)

The net assets deficit in the Administration Insurance Fund is due to recording the expense for estimated claims including claims incurred, but not reported. Refer to Note 8 for further discussion of this fund.

NOTE 14. RESERVED FUND BALANCES

Special Revenue Funds – The State and Federal Special Revenue Funds reserved fund balances are for the following purposes (in thousands):

Fund Type/Purpose	Amount
State Special Revenue funds	
General Government	$ 26,267
Public Safety/Corrections	184,600
Transportation	167,656
Health/Social Services	23,551
Education/Cultural	3,865
Resource/Recreation/Environment	276,893
Economic Development/Assistance	36,718
Total state special revenue funds	$719,550
Federal Special Revenue funds	
General Government	$ 7,596
Public Safety/Corrections	729
Health/Social Services	1,608
Education/Cultural	13,229
Resource/Recreation/Environment	3,837
Economic Development/Assistance	296
Total federal special revenue funds	$27,295

Coal Severance Tax Permanent Trust Fund – The reserve for trust principal is comprised of the following (in thousands):

Purpose	Amount
Coal Severance Tax Bond Fund	$ 11,493
Treasure State Endowment Fund	140,517
Treasure State Endowment Regional Water System Fund	25,481
Coal Severance Tax Permanent Fund	498,287
Coal Severance Tax Income Fund	15,958
Total	$691,736

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation and by the Student Assistance Foundation of Montana (SAF) and subsidiaries. The Board of Regents and MHESAC have three common board members. Approximately 69.59% of the Regents' outstanding loan volume, or $957,571,545 is held by either MHESAC or SAF and subsidiaries. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana, and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have three common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2005 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer

maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2005 amounted to $494,722. SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2005, SAF paid OCHE a total of $28,393.

A staff member in the Department of Administration, Personnel Division, serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association $1 per member per year to maintain its membership as well as a monthly fee of $3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.

NOTE 16. CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In September 2002, a coalition of school districts, teachers, and parents filed an action, Columbia Falls Elementary School District v. State of Montana, No. BDV-2002-528 (Mont. 1st Jud. Dist. Lewis & Clark County), that alleges that Montana's system for funding public education violates the requirements of the Montana Constitution, The complaint seeks a declaratory judgment that the system violates the Montana Constitution and declaratory and injunctive relief compelling the State to (1) study and determine the components of free quality public elementary and secondary education and the costs of delivering such education; (2) implement a funding system based on educationally relevant factors; (3) fully fund and equitably distribute the State's share of the costs of public elementary and secondary education; (4) include a cost adjustment factoring the funding system; and (5) establish a mechanism for monitoring and adjusting the funding system and an award of attorney's fees. The court denied the State's motion for summary judgment.

The district court sat for the trial in this case from January 20, 2004 through February 4, 2004. Both parties submitted witness, exhibits, and cross-examined witnesses. On April 15, 2004, the court entered its order holding the school funding system unconstitutional. The State appealed the judgment, and the plaintiffs have cross-appealed on certain aspects of the judgment as well. The Supreme Court heard oral argument on the appeal and cross-appeal on October 20, 2004, and the Montana Supreme Court has issued an order that the school funding system violates the Montana Constitution, and has upheld the District order that the State has until October 2005 to address this issue. The court retains jurisdiction to determine whether the Legislature adopts legislation correcting the constitutional deficiencies in the existing system, and further litigation under this retained jurisdiction is possible. The State and the plaintiffs have settled the plaintiffs' attorney fee in the amount of $499,732.18. The parties have agreed to submit that claim for funding by the Montana legislature. Significant additional expenditures on K-12 education may be required in future years.

The State has responded, and is responding to the Columbia Falls court decision. The State defined a quality K-12 education with the passage of Senate Bill 152 during the 2005 Legislative Session. Additionally, Senate Bill 152 defined educationally relevant factors to which a funding system must be correlated. The 2005 Legislature also passed Senate Bill 525, establishing a Quality Schools Interim Committee. This committee is directed to (1) assess the educational needs of Montana children; (2) determine the cost of providing a quality education; (3) determine the State's share of the costs; (4) construct a funding formula in accordance with the requirements contained in the legislation. These directives must be accomplished by December 1, 2005. Additionally, Governor Schweitzer has provided the Quality Schools Interim Committee the following proposals for consideration: (1) a voluntary health care package that includes State of Montana assumption of "high cost" insurance claims along with other health benefits; (2) a one-time appropriation of $100 million into Montana's Teacher Retirement System (TRS); (3) a one-time appropriation of $25 million for facility maintenance and increased energy efficiency. Prior to the enactment of a long-term solution, K-12 funding was increased by $88 million for the current biennium, and $3.4 million was appropriated to fund the Indian Education for All Program. A special session of the Montana Legislature has been called, starting on December 14, 2005, to address this issue. It remains to be seen whether the State's actions will satisfy the Montana Supreme Court order in the Columbia Falls School case. Additional costs required by the State in relation to this court case are not estimable at this time.

Beginning in February 2001, the Montana Department of Fish Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibiting the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a

fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but several cases are now pending in which game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. The State believes valid defenses exist to the claims asserted in these cases. One of the cases, Spoklie v. State of Montana, U.S. District Ct., D. Mont. Docket No. CV-02-102-GF-SHE, has been dismissed in its entirety, and the dismissal has now been affirmed by the Ninth Circuit of Appeals. In a second case, Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, the state district court has denied the taking claim and entered final judgment in favor of the State. The plaintiffs have filed a notice of appeal of that decision to the Montana Supreme Court. In Buhlmann et al. v. State of Montana st al., Lewis and Clark Docket No. DV-2002-555, the court has entered judgment in favor of the State on the taking claims, and appeal has been taken to the Montana Supreme Court. Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, is submitted on cross-motions for summary judgment. Wallace v. State of Montana, Ravalli County Docket No. 02-254, has been dismissed without prejudice. Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119, Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, are in varying stages of pretrial preparation. Based on the courts' treatment of the cases thus far, in the opinion of counsel, good defenses exist to all of these claims, although adverse decisions remain reasonably possible. The estimated amount of loss cannot be estimated at this time.

Murer, et al v. Montana State Compensation Mutual Insurance Fund, et al., WCC No. 9206-6487, involves the 1987 Legislature's capping of workers compensation benefits ($299.00 a week for total benefits and $149.50 a week for partial benefits) for injuries occurring during the period July 1, 1987 through June 30, 1989. The 1989 Legislature reenacted those caps for the period July 1, 1989 through June 30, 1991 for injuries occurring between July 1, 1989 and June 30, 1991.

The Montana Supreme Court found that these caps should have expired on June 30, 1989, for injuries occurring between July 1, 1987 and June 30, 1989 and should have expired on June 30, 1991, for injuries occurring between July 1, 1989 and June 30, 1991.

The Montana Supreme Court determined a "common fund" had been created. As a result, the Montana State Fund (MSF), under Workers Compensation Court direction, performed a review of approximately 7,500 claims. Those claims qualifying are paid 85% of the increased rate, with 15% paid to the claimant attorney. The current benefit costs and fees in Murer total approximately $2 million. The cost impact has been paid, or is included in Montana State Fund's loss reserves. The review and payment process is almost complete. This case will not be reported in future years due to the nearly completed process.

The common fund doctrine was first addressed for workers compensation claims in Murer v. State Compensation Mutual Ins. Fund, 283 Mont. 210, 223, 942 P.2d 69, 76 (1997), as follows:

When a party, through active litigation, creates a common fund, which directly benefits an ascertainable class of non-participating beneficiaries, those non-participating beneficiaries can be required to bear a portion of the litigation costs, including reasonable attorney fees. Accordingly, the party who creates the common fund is entitled, pursuant to the common fund doctrine, to reimbursement of his or her reasonable attorney fees from that fund.

In Stavenjord v. State Compensation Insurance Fund, the first decision was issued by the Workers Compensation Court on May 22, 2001. It addressed the issue of whether the failure of the Occupational Disease Act (ODA) to provide PPD (permanent partial disability) benefits equivalent to the benefits provided in the Montana WCA (Workers Compensation Act) violates the claimant's right to equal protection of the law. Relying on the Henry case (previous case from the Supreme Court finding that vocational rehabilitation benefits must also be paid under the ODA), the court held that MCA 39-72-405 is unconstitutional as applied to Debra Stavenjord. "Where PPD benefits calculated pursuant to the WCA are greater than the benefits available to a claimant under the ODA, constitutional equal protection guarantees require that benefits be computed and paid in accordance with the WCA. The claimant in this case is entitled to $27,027 under the WCA, versus $10,000 under the ODA." The Montana Supreme Court affirmed the case on April 1, 2003. On August 27, 2004, the Workers Compensation Court held that Stavenjord is retroactive to June 3, 1999 (the date of the Henry decision). The court held that a common fund is created for claimants reaching Maximum Medical Improvement on or after June 3, 1999. The cost of retroactively paying benefits for claims in the period of June 3, 1999 through May 21, 2001, is estimated at $2.2 million and is recorded in the loss reserves of the financial statements. There is no impact on the Old Fund liability with this ruling. This decision has been appealed to the Montana Supreme Court. Should the ultimate decision of the Montana Supreme Court be to create a common fund and apply the decision retroactively to 1987, the cost is estimated at $14 to $19 million dollars for the Montana State

Fund (New Fund), for claims on or after July 1, 1990). Should the ultimate decision of the Montana Supreme Court be to apply the decision retroactively to 1987, the impact on the Old Fund liability for claims that occurred before July 1, 1990 is estimated at $5 to $7 million. Final disposition is unknown at this time. The outcome of a ruling reversing the Workers Compensation Court by the Montana Supreme Court that would increase MSF and State of Montana liability is reasonably possible. Actual cost impact should the Montana Supreme Court reverse the Workers Compensation Court ruling is unknown.

Schmill v. Liberty Northwest Insurance, 2003 MT 80, decided April 10, 2003, by the Montana Supreme Court held as follows: "We conclude that the ODA and the WCA treat similarly situated classes of workers differently. Furthermore, apportioning Schmill's permanent impairment award for her occupational disease pursuant to MCA 39-72-706 of the ODA while providing full benefits for injured workers pursuant to the WCA is not rationally related to a legitimate governmental interest. Therefore, we conclude that MCA 39-72-706 violates the equal protection guarantee found at Article II, Section 4 of the Montana Constitution. The judgment of the Workers Compensation Court is affirmed." The Workers Compensation Court determined that a common fund existed, and the case was retroactive to July 1, 1987. This decision was affirmed on appeal to the Montana Supreme Court. The June 7, 2005 decision of the Montana Supreme Court created a common fund and applied the decision retroactively. The cost is estimated to be $1.4 to $1.9 million dollars for MSF. The decision of the Montana Supreme Court is estimated to impact the Old Fund liability in the amount of $800,000 for claims that occurred before July 1, 1990. This was not a case against the Montana State Fund, but the holding of this decision applies to Montana State Fund and the Old Fund. Implementation of the common fund has begun under the direction of the Workers Compensation Court. This case has been recorded in the MSF loss reserves.

Satterlee v. Lumberman's Mutual Casualty Company et al., WCC No. 2003-0840, was filed before the Workers Compensation Court on July 18, 2003. The Satterlee vs. Lumberman's Mutual Casualty Company case challenges the constitutionality of State statute, (MCA 39-71-710) passed by the Montana Legislature in 1981. That statute authorizes termination of permanent total disability benefits and rehabilitation benefits when a claimant receives or becomes eligible to receive full Social Security retirement benefits or an alternative to that plan. Should the statute be found to be unconstitutional as applied to permanent total benefits, Satterlee, et al. request payment of lifetime permanent total disability benefits. In addition, the petition requests certification of this case as a class action or the establishment of a common fund for similarly situated claimants. Petitioners filed a motion and brief for summary judgment on the constitutional issue. The Workers Compensation Court provided an opportunity for any workers compensation insurer to intervene until June 6, 2005. Briefing is to be completed by September 15, 2005, and oral argument is set for October 7, 2005. Should MCA 39-71-710 ultimately be held to be unconstitutional as applied to permanent total disability benefits by the Workers Compensation Court and/or the Montana Supreme Court, and also found to apply retroactively, the cost impact has been estimated for non-settled claims arising on or after July 1, 1990 through December 22, 2004 at $135 million to $186 million. The estimated cost of retroactively applying the decision to the Old Fund, for non-settled permanent total disability claims that occurred before July 1, 1990, is $93 million to $116 million. The potential for liability for MSF and the State of Montana is reasonably possible. Actual cost impact is unknown.

In Reesor v. Montana State Fund, 2004 MT 370, Reesor was receiving Social Security retirement benefits at the time he suffered an industrial accident. He received an impairment award, but was denied other permanent partial disability (PPD) benefits pursuant to MCA 39-71-710, which provides that persons who are receiving Social Security benefits or are eligible for full Social Security retirement benefits are ineligible for PPD benefits other than an impairment award. Reesor challenged the constitutionality of MCA 39-71-710 on equal protection grounds and sought full PPD benefits. On July 26, 2003, the Workers Compensation Court found MCA 39-71-710 to be constitutional. Reesor appealed to the Montana Supreme Court, where on December 22, 2004, the court held that limiting Reesor's permanent partial benefit pursuant to MCA 39-71-710 violated the Equal Protection Clause of the Montana Constitution. Pending before the Workers Compensation Court are the retroactive application of the decision and common fund status. MSF has estimated the cost of benefits associated with a retroactive application of Reesor. MSF's estimate did not include claims with entitlement dates occurring on or after July 1, 1991 through June 30, 1995 because the Russette decision appears to make Reesor inapplicable during that timeframe. Excluding the Russette timeframe, for claims arising on or after July 1, 1990 through December 22, 2004, the increase in benefit costs for MSF is estimated at $2 million. For claims arising on or after July 1, 1987 through June 30, 1990, the retroactive application of Reesor will result in an estimated benefit cost increase of $1 million for the Old Fund. The potential for the litigation to create a liability for MSF and the State of Montana is reasonably possible. Actual cost impact should the decision be applied retroactively is unknown.

B. Federal Contingencies

USDA Commodities – In fiscal year 2005, the State distributed $6,963,170 in commodities. The value of the commodities stored in the State's warehouses was $1,888,055 at June 30, 2005, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2005, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling $130,476,641. The BOI's exposure to bond issues of the Economic Development Bonds Fund was $85,160,000, while exposure to bond issues and surety bonds of the Facility Finance Authority was $45,316,641.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2005, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	$ 932	$264	$1,765	$32	$408
Oil & gas	2,328	252	-	-	-
Corporation tax	6,035	-	-	-	-
Total	$9,295	$516	$1,765	$32	$408

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2005. The corporations have appealed the decision. As of June 30, 2005, these include $13,089,240 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2005. As of June 30, 2005, these include $5,764,997 of protested General Fund property taxes.

NOTE 17. SUBSEQUENT EVENTS

Bond Issues

On July 1, 2005, the Montana Board of Housing issued $516,000 of Series 2005A-1 Single Family Mortgage Revenue bonds (Montana Homeownership Network Pool Program). The bonds are limited-obligation, taxable revenue bonds issued by the board on behalf of Neighborhood Housing Services, Incorporated of Great Falls, Montana and the Montana Home Ownership Network.

$30,280,000 in Series 2005 RA Single Family Program bonds were issued on October 19, 2005.

On July 21, 2005, Montana State University issued $25,750,000 Series J 2005 Facilities Improvement Revenue bonds for the purposes of funding the renovation, furnishing, and equipping of the Strand Union Building, the Health & PE Complex, and constructing the Black Box Theater.

In association with the Series J 2005 bonds, the university has entered into an interest rate swap agreement with Deutsche Bank AG that the university will pay D-B a fixed rate of interest (3.953%), and D-B will pay the university a floating rate based upon the Bond Market Association (BMA) index, in each case based upon a notational amount equal to the principal amount of the Series J 2005 bonds outstanding. The purpose of the interest rate agreement is generally to convert the university's floating rate obligations with respect to the Series J 2005 bonds to fixed-rate obligations.

On September 15, 2005, The University of Montana issued $31,095,000 of Series J 2005 Facilities Improvement and Refunding Revenue bonds, with interest ranging from 3.00 percent to 4.50 percent. The proceeds from the issue, together with certain resources of the Board of Regents and the university, will provide funds to pay and discharge a portion of the Series F Revenue bonds, and finance or refinance the costs of acquisition, construction, furnishing, equipping,

renovation or improvement of certain university facilities.

In addition, the university intends to refund the remaining unrefunded portion of the Series F 1999 Revenue bonds by issuing variable-rate parity bonds in 2010 (Series K 2010 Parity bonds) for a maximum principal amount of $47,000,000. As part of the planned issuance, the university entered into a forward-swap interest rate agreement on August 26, 2005. The purpose of the rate swap is to convert the variable-rate Series K 2010 Parity bonds into a fixed-rate obligation. The university received approximately $2,000,000 from the counter party, which will be used to pay costs associated with Series J 2005 Revenue bonds issuance. The payment received from the counterparty was consideration for the fixed-rate payable under this obligation being higher than interest rates on similar obligations at the time the agreement was signed.

On August 18, 2005, the Board of Investments issued $825,000 Series 2005 Municipal Finance Consolidation Act bonds for the Cut Bank Elementary Schools Qualified Zone Academy Program.

On August 18, 2005, the Board of Investments issued $625,000 Series 2005 Municipal Finance Consolidation Act Bonds for the Cut Bank High Schools Qualified Zone Academy Program.

On August 4, 2005 the Montana Facility Finance Authority issued a $1,200,000 bond issue for the Boyd Andrew Prerelease Center. As discussed in Note 11, this debt is not a commitment of the State of Montana.

On August 23, 2005, the Montana Facility Finance Authority issued a $3,434,000 bond issue to refinance existing debt for Missions United.

On September 21, 2005, the Montana Facility Finance Authority issued a $28,545,000 bond issue to refund existing bonds and construct an additional 32 independent living units at Hillcrest facility.

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

A. Constitutionality of IRIS Funding

In the 2004 CAFR, the State provided a disclosure related to legal compliance issues involved with the funding of the IRIS project (Integrated Revenue Information System). The State's bond counsel and the State's Legislative Audit Division had raised several legal concerns related to legislation passed by the State's Legislature.

In accordance with the Fifty-Ninth Legislative Assembly, House Bill 745, funds were appropriated from the General Fund to the State Special Revenue Fund for repayment of the IRIS loan. In fiscal year 2005, the Department of Revenue used the transferred funds to repay the interfund advance to the Coal Severance Tax Permanent Fund.

B. Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement plans shall be funded on an actuarially sound basis. As of June 30, 2005, there were four retirement plans not in compliance: the Teachers Retirement System (TRS), the Public Employee Retirement System (PERS) Defined Benefit Retirement Plan, the Sheriffs Retirement System, and the Game Wardens and Peace Officers Retirement System. Detailed information for each plan can be found in Note 6.

A special session of the Montana Legislature has been called for December 14, 2005, to address this retirement system funding issue.

State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2005

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BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	$ 126,303	$ 126,303	$ 127,114	$ 811
Taxes:				
Natural resource	37,309	37,309	78,202	40,893
Individual income	577,891	577,891	635,808	57,917
Corporate income	69,249	69,249	94,014	24,765
Property	175,805	175,805	175,392	(413)
Fuel	-	-	-	-
Other	204,570	204,570	202,530	(2,040)
Charges for services/fines/forfeits/settlements	38,695	38,695	31,928	(6,767)
Investment earnings	17,349	17,349	10,596	(6,753)
Sale of documents/merchandise/property	344	344	326	(18)
Rentals/leases/royalties	53	53	45	(8)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	1,645	1,645	2,591	946
Federal	17,631	17,631	26,041	8,410
Federal indirect cost recoveries	142	142	145	3
Other revenues	1,738	1,738	215	(1,523)
Total revenues	1,268,724	1,268,724	1,384,947	116,223
EXPENDITURES				
Current:				
General government	198,773	187,799	187,220	579
Public safety/corrections	130,978	144,069	142,824	1,245
Transportation	181	205	199	6
Health/social services	275,120	279,597	277,571	2,026
Education/cultural	660,754	659,550	654,319	5,231
Resource/recreation/environment	20,294	31,521	31,466	55
Economic development/assistance	22,821	24,998	23,869	1,129
Debt service:				
Principal retirement	3,894	4,001	613	3,388
Interest/fiscal charges	122	122	122	-
Capital outlay	1,547	1,840	1,047	793
Total expenditures	1,314,484	1,333,702	1,319,250	14,452
Excess of revenue over (under) expenditures	(45,760)	(64,978)	65,697	130,675
OTHER FINANCING SOURCES (USES)				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Refunding bonds issued	-	-	-	-
General capital asset sale proceeds	71	71	22	(49)
Transfers in	69,334	69,334	64,760	(4,574)
Transfers out	(20,321)	(33,093)	(31,030)	2,063
Total other financing sources (uses)	49,084	36,312	33,752	(2,560)
Net change in fund balances (Budgetary basis)	3,324	(28,666)	99,449	128,115
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	1,436	1,436
2. Securities lending costs	-	-	(1,375)	(1,375)
3. Bond premium	-	-	-	-
4. Inception of lease/installment contract	-	-	264	264
5. Adjust expenditures for encumbrances	-	-	1,768	1,768
6. Adjustments for nonbudgeted activity	-	-	58,835	58,835
Net change in fund balances (GAAP basis)	3,324	(28,666)	160,377	189,043
Unreserved fund balances - July 1	132,873	132,873	132,873	-
Prior period adjustments	-	-	(2,299)	(2,299)
Decrease (increase):				
Encumbrances reserve	-	-	(1,701)	(1,701)
Long-term loans/notes receivable reserve	-	-	17	17
Advances to other funds reserve	-	-	-	-
Special revenue reserve	-	-	-	-
Escheated property reserve	-	-	408	408
Unreserved fund balances - June 30	$ 136,197	$ 104,207	$ 289,675	$ 185,468

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
$ 112,526	$ 112,526	$ 116,681	$ 4,155	$ -	$ -	$ -	$ -
42,062	42,062	83,041	40,979	-	-	-	-
-	-	1,109	1,109	-	-	-	-
-	-	-	-	-	-	-	-
49	49	9,375	9,326	-	-	-	-
196,454	196,454	191,900	(4,554)	-	-	-	-
33,320	33,320	54,064	20,744	-	-	-	-
75,562	75,562	73,987	(1,575)	45,326	45,326	68,978	23,652
5,677	5,677	6,723	1,046	430	430	473	43
6,732	6,732	4,797	(1,935)	1	1	-	(1)
413	413	775	362	-	-	-	-
7,500	7,500	7,731	231	-	-	-	-
24,822	24,822	17,429	(7,393)	45	45	31	(14)
24,412	24,412	11,554	(12,858)	1,574,522	1,574,522	1,319,355	(255,167)
151	151	34,211	34,060	3,484	3,484	46,724	43,240
3,540	3,540	2,936	(604)	1,810	1,810	233	(1,577)
533,220	533,220	616,313	83,093	1,625,618	1,625,618	1,435,794	(189,824)
106,923	107,842	93,467	14,375	11,631	18,342	8,945	9,397
41,426	44,285	37,844	6,441	53,813	100,110	50,141	49,969
415,860	437,515	212,193	225,322	416,581	384,852	276,354	108,498
70,225	70,190	59,873	10,317	884,991	900,638	837,983	62,655
77,061	77,479	77,155	324	207,425	208,284	172,782	35,502
142,666	144,977	100,120	44,857	74,890	93,357	55,947	37,410
68,587	72,368	65,859	6,509	76,996	82,080	64,999	17,081
9,795	9,175	432	8,743	162	359	196	163
1,060	1,060	1,060	-	29	29	29	-
68,509	74,548	27,360	47,188	48,991	62,271	24,735	37,536
1,002,112	1,039,439	675,363	364,076	1,775,509	1,850,322	1,492,111	358,211
(468,892)	(506,219)	(59,050)	447,169	(149,891)	(224,704)	(56,317)	168,387
570	570	-	(570)	-	-	-	-
198,225	198,225	133,988	(64,237)	-	-	-	-
5,070	5,070	5,070	-	-	-	-	-
193	193	141	(52)	5	5	3	(2)
208,677	208,677	136,292	(72,385)	36,383	36,383	6,446	(29,937)
(20,254)	(15,984)	(4,692)	11,292	(50,994)	(46,917)	(13,447)	33,470
392,481	396,751	270,799	(125,952)	(14,606)	(10,529)	(6,998)	3,531
(76,411)	(109,468)	211,749	321,217	(164,497)	(235,233)	(63,315)	171,918
-	-	1,033	1,033	-	-	-	-
-	-	(978)	(978)	-	-	-	-
-	-	6,653	6,653	-	-	-	-
-	-	131	131	-	-	122	122
-	-	11,465	11,465	-	-	1,510	1,510
-	-	(16,330)	(16,330)	-	-	57,400	57,400
(76,411)	(109,468)	213,723	323,191	(164,497)	(235,233)	(4,283)	230,950
(73,620)	(73,620)	(73,620)	-	(10,271)	(10,271)	(10,271)	-
-	-	463	463	-	-	277	277
-	-	2,804	2,804	-	-	12,858	12,858
-	-	(8,942)	(8,942)	-	-	55	55
-	-	(2,923)	(2,923)	-	-	100	100
-	-	(181,050)	(181,050)	-	-	(238)	(238)
-	-	37	37	-	-	-	-
$ (150,031)	$ (183,088)	$ (49,508)	$ 133,580	$ (174,768)	$ (245,504)	$ (1,502)	$ 244,002

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The Legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and along with other information develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2005, reverted governmental fund appropriations were as follows: General Fund - $26.5 million, State Special Revenue Fund - $32.3 million, and Federal Special Revenue Fund - $52.8 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Single Employer Systems
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/02	81,734	94,850	13,116	86.17%	7,536	174.04%
07/01/04	79,104	104,069	24,965	76.01%	7,844	318.27%
06/30/05	82,050	112,938	30,888	72.65%	9,104	339.28%
JRS						
07/01/02	44,963	30,882	(14,081)	145.60%	4,000	(352.03)%
07/01/04	45,134	34,724	(10,410)	129.98%	4,403	(236.43)%
06/30/05	47,552	34,525	(13,027)	137.73%	4,462	(291.95)%

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-2. PENSION PLAN INFORMATION

The information presented in this required supplementary schedule was determined as part of the actuarial valuations at the dates indicated in the table below. Additional information as of the latest actuarial valuation follows:

Pension Plan Information
Single Employer Systems

	HPORS	JRS
Contributions (in thousands)		
Employer	$3,324	$1,162
Employee	862	394
License and registration fees	669	
Actuarial valuation date	6/30/05	6/30/05
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	21.1 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.25%	4.25%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2005

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COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2005
(expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	$ 16,867	$ 9,082	$ 5,801	$ 31,750
Receivables (net)	2,708	1,342	1,478	5,528
Due from other funds	11	578	-	589
Equity in pooled investments	-	-	191,811	191,811
Long-term loans/notes receivable	30,906	-	-	30,906
Advances to other funds	2,826	-	-	2,826
Investments	4,978	-	8,181	13,159
Securities lending collateral	-	-	24,430	24,430
Other assets	-	13	-	13
Total assets	$ 58,296	$ 11,015	$ 231,701	$ 301,012
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	220	1,876	6	2,102
Interfund loans payable	-	382	-	382
Due to other funds	556	25	2,149	2,730
Due to component units	-	3	-	3
Advances from other funds	12,371	-	-	12,371
Deferred revenue	1	8	1	10
Securities lending liability	-	-	24,430	24,430
Total liabilities	13,148	2,294	26,586	42,028
Fund balances:				
Reserved for:				
Long-term loans/notes receivable	30,906	-	-	30,906
Advances to other funds	2,826	-	-	2,826
Debt service	5,960	-	-	5,960
Trust principal	-	-	205,115	205,115
Unreserved, designated	8,553	-	-	8,553
Unreserved, undesignated	(3,097)	8,721	-	5,624
Total fund balances	45,148	8,721	205,115	258,984
Total liabilities and fund balances	$ 58,296	$ 11,015	$ 231,701	$ 301,012

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Licenses/permits	$ -	$ -	$ 372	$ 372
Taxes:				
Natural resource	383	4,841	1,018	6,242
Fuel	-	-	12	12
Other	-	1,828	-	1,828
Charges for services/fines/forfeits/settlements	985	229	10,829	12,043
Investment earnings	8,064	44	14,660	22,768
Securities lending income	-	-	506	506
Sale of documents/merchandise/property	2,623	-	-	2,623
Rentals/leases/royalties	-	-	130	130
Grants/contracts/donations	-	-	19	19
Other revenues	-	61	-	61
Total revenues	12,055	7,003	27,546	46,604
EXPENDITURES				
Current:				
General government	-	7,793	-	7,793
Public safety/corrections	-	5,368	-	5,368
Health/social services	9	-	-	9
Education/cultural	-	-	8	8
Resource/recreation/environment	231	-	-	231
Debt service:				
Principal retirement	25,964	-	-	25,964
Interest/fiscal charges	12,879	-	-	12,879
Capital outlay	-	16,336	19	16,355
Securities lending	-	-	478	478
Total expenditures	39,083	29,497	505	69,085
Excess of revenue over (under) expenditures	(27,028)	(22,494)	27,041	(22,481)
OTHER FINANCING SOURCES (USES)				
Bonds issued	-	1,670	-	1,670
Refunding bonds issued	25,000	-	-	25,000
Bond premium	1,452	-	-	1,452
Payment to refunding bond escrow agent	(31,018)	-	-	(31,018)
Transfers in	32,170	23,262	-	55,432
Transfers out	(5,051)	(4,663)	(11,956)	(21,670)
Total other financing sources (uses)	22,553	20,269	(11,956)	30,866
Net change in fund balances	(4,475)	(2,225)	15,085	8,385
Fund balances - July 1 - as previously reported	49,560	11,000	190,030	250,590
Prior period adjustments	63	(54)	-	9
Fund balances - July 1 - as restated	49,623	10,946	190,030	250,599
Fund balances - June 30	$ 45,148	$ 8,721	$ 205,115	$ 258,984

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NONMAJOR DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligation principal and interest. A brief description of each debt service fund follows:

Coal Tax – This fund accounts for payments on special revenue renewable resource program (coal severance tax) bonds.

Long-Range Building Program – This fund accounts for payments on general obligation long-range building program bonds.

Water & Wastewater Development – This fund accounts for payments on the following general obligation bonds: wastewater treatment works revolving fund, renewable resource program, drinking water revolving fund, and water pollution control revolving fund.

Water Conservation – This fund accounts for payments on water conservation loans issued for the following projects: Little Dry and Petrolia.

Health Care – This fund accounts for payments on the following special revenue bonds: Montana State Hospital and Montana Developmental Center.

Information Technology – This fund accounts for payments on general obligation information technology bonds.

Renewable Resource – In 2005, this fund was combined with the Water & Wastewater Development debt service fund.

Energy Conservation Program – This fund accounts for payments on general obligation bonds issued for State Building Energy Conservation Projects.

Environmental Reclamation – This fund accounts for payments on the following general obligation bonds: hard rock mining reclamation and CERCLA program.

Highway – This fund accounts for payments on the U.S. Highway 93 GARVEES special revenue bonds.

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2005
(expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTERWATER DEVELOPMENT	WATER CONSERVATION
ASSETS				
Cash/cash equivalents	$ 9,322	$ 179	$ 3,808	$ -
Receivables (net)	641	-	2,067	-
Due from other funds	1	5	-	-
Long-term loans/notes receivable	15,212	-	15,655	39
Advances to other funds	2,826	-	-	-
Investments	-	-	3,952	-
Total assets	$ 28,002	$ 184	$ 25,482	$ 39
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	4	-	-
Due to other funds	4	-	552	-
Advances from other funds	-	-	12,371	-
Deferred revenue	-	-	1	-
Total liabilities	4	4	12,924	-
Fund balances:				
Reserved for:				
Long-term loans/notes receivable	15,212	-	15,655	39
Advances to other funds	2,826	-	-	-
Debt service	5,960	-	-	-
Unreserved, designated	4,000	180	-	-
Unreserved, undesignated	-	-	(3,097)	-
Total fund balances	27,998	180	12,558	39
Total liabilities and fund balances	$ 28,002	$ 184	$ 25,482	$ 39

HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TOTAL
$ 3,128	$ 216	$ -	$ 214	$ 16,867
-	-	-	-	2,708
-	3	2	-	11
-	-	-	-	30,906
-	-	-	-	2,826
1,026	-	-	-	4,978
$ 4,154	$ 219	$ 2	$ 214	$ 58,296
-	2	-	214	220
-	-	-	-	556
-	-	-	-	12,371
-	-	-	-	1
-	2	-	214	13,148
-	-	-	-	30,906
-	-	-	-	2,826
-	-	-	-	5,960
4,154	217	2	-	8,553
-	-	-	-	(3,097)
4,154	217	2	-	45,148
$ 4,154	$ 219	$ 2	$ 214	$ 58,296

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTERWATER DEVELOPMENT	WATER CONSERVATION
REVENUES				
Taxes:				
Natural resource	$ -	$ -	$ 383	$ -
Charges for services/fines/forfeits/settlements	-	-	1	26
Investment earnings	909	71	6,838	5
Sale of documents/merchandise/property	2,623	-	-	-
Total revenues	3,532	71	7,222	31
EXPENDITURES				
Current:				
Health/social services	-	-	-	-
Resource/recreation/environment	2	-	223	-
Debt service:				
Principal retirement	5,550	8,955	3,640	4
Interest/fiscal charges	1,683	6,630	1,638	2
Total expenditures	7,235	15,585	5,501	6
Excess of revenue over (under) expenditures	(3,703)	(15,514)	1,721	25
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	-	25,000	-	-
Bond premium	-	1,452	-	-
Payment to refunding bond escrow agent	(4,998)	(26,020)	-	-
Transfers in	6,829	13,673	2,112	-
Transfers out	(682)	-	(4,363)	-
Total other financing sources (uses)	1,149	14,105	(2,251)	-
Net change in fund balances	(2,554)	(1,409)	(530)	25
Fund balances - July 1 - as previously reported	30,520	1,589	12,777	14
Prior period adjustments	32	-	311	-
Fund balances - July 1 - as restated	30,552	1,589	13,088	14
Fund balances - June 30	$ 27,998	$ 180	$ 12,558	$ 39

HEALTH CARE	INFORMATION TECHNOLOGY	RENEWABLE RESOURCE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
$ -	$ -	$ -	$ -	$ -	$ 383
-	99	-	859	-	985
233	1	-	7	-	8,064
-	-	-	-	-	2,623
233	100	-	866	-	12,055
9	-	-	-	-	9
-	-	-	4	2	231
1,355	5,645	-	735	80	25,964
1,588	1,139	-	103	96	12,879
2,952	6,784	-	842	178	39,083
(2,719)	(6,684)	-	24	(178)	(27,028)
-	-	-	-	-	25,000
-	-	-	-	-	1,452
-	-	-	-	-	(31,018)
2,793	6,583	-	-	180	32,170
-	(6)	-	-	-	(5,051)
2,793	6,577	-	-	180	22,553
74	(107)	-	24	2	(4,475)
4,080	107	280	193	-	49,560
-	-	(280)	-	-	63
4,080	107	-	193	-	49,623
$ 4,154	$ -	$ -	$ 217	$ 2	$ 45,148

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NONMAJOR CAPITAL PROJECTS FUNDS

Capital project funds are used to account for financial resources used for the acquisition or construction of major governmental general capital assets. A brief description of each capital project fund follows:

Long-Range Building Program – This fund is maintained to account for resources received and expended for the State's long-range building program. The long-range building program includes costs for the acquisition, construction, and improvement of major capital assets financed by general obligation bonds and interest earned on bond proceeds.

Information Technology Projects – This fund accounts for resources received and expended for information technology projects for various upgrade and replacement activities.

Federal/Private Construction Grants – This fund accounts for federal grants, private donations, and federal matching funds that are restricted to general capital asset construction.

Capital Land Grant – This fund accounts for revenues and expenditures from the Capital Land Grant. Revenues are dedicated for the purpose of constructing capital buildings or additions thereto. Revenues may be transferred to a debt service fund for the payment of principal and interest on bonds issued for capital building construction.

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2005
(expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
ASSETS					
Cash/cash equivalents	$ 6,658	$ 1,530	$ -	$ 894	$ 9,082
Receivables (net)	1,342	-	-	-	1,342
Due from other funds	-	4	574	-	578
Other assets	-	13	-	-	13
Total assets	$ 8,000	$ 1,547	$ 574	$ 894	$ 11,015
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	793	482	601	-	1,876
Interfund loans payable	-	-	382	-	382
Due to other funds	13	12	-	-	25
Due to component units	-	3	-	-	3
Deferred revenue	8	-	-	-	8
Total liabilities	814	497	983	-	2,294
Fund balances:					
Unreserved	7,186	1,050	(409)	894	8,721
Total fund balances	7,186	1,050	(409)	894	8,721
Total liabilities and fund balances	$ 8,000	$ 1,547	$ 574	$ 894	$ 11,015

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural Resource	$ 4,841	$ -	$ -	$ -	$ 4,841
Other	1,828	-	-	-	1,828
Charges for services/fines/forfeits/settlements	229	-	-	-	229
Investment earnings	44	-	-	-	44
Other revenues	61	-	-	-	61
Total revenues	7,003	-	-	-	7,003
EXPENDITURES					
Current:					
General government	39	7,754	-	-	7,793
Public safety/corrections	-	5,368	-	-	5,368
Capital outlay	6,245	2,845	7,246	-	16,336
Total expenditures	6,284	15,967	7,246	-	29,497
Excess of revenue over (under) expenditures	719	(15,967)	(7,246)	-	(22,494)
OTHER FINANCING SOURCES (USES)					
Bonds issued	1,670	-	-	-	1,670
Transfers in	1,235	13,969	7,263	795	23,262
Transfers out	(3,601)	(11)	-	(1,051)	(4,663)
Total other financing sources (uses)	(696)	13,958	7,263	(256)	20,269
Net change in fund balances	23	(2,009)	17	(256)	(2,225)
Fund balances - July 1 - as previously reported	7,168	3,059	(426)	1,199	11,000
Prior period adjustments	(5)	-	-	(49)	(54)
Fund balances - July 1 - as restated	7,163	3,059	(426)	1,150	10,946
Fund balances - June 30	$ 7,186	$ 1,050	$ (409)	$ 894	$ 8,721

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NONMAJOR PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support state government programs. A brief description of each permanent fund follows:

Resource Indemnity – Taxes paid by persons engaging in or carrying on the business of mining, extracting, or producing minerals are deposited in this fund. Only the net earnings of the trust may be appropriated until the principal reaches $100 million. Interest earnings are expended from a special revenue fund. This fund is administered by the Department of Revenue.

Parks Trust and Cultural Trust – A portion of coal severance taxes are credited to these funds by the Department of Revenue. Income from the trusts is used for the acquisition and maintenance of state parks and historical sites by the Department of Fish, Wildlife and Parks. The Montana Arts Council uses income from the trusts for the protection of works of art in the State Capitol and for other cultural projects.

Real Property Trust – Money received by the Department of Fish, Wildlife and Parks from the sale of real property; the exploration and development of oil, gas, and mineral deposits; and leasing department real property is deposited in this fund. Interest is recorded in a special revenue fund and used for developing and maintaining real property of the department.

Noxious Weed Management – The Department of Agriculture accounts for revenues and interest earned on fees charged for the control of noxious weeds.

Historical Society Trusts – The fund accounts for memorials, bequests, and various other contributions to the Montana Historical Society. Includes the following trust funds: James H. Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, Historical Society Acquisitions, Sobotka Memorial, and Edger I. and Jane R. Stewart.

Endowment for Children – This fund provides services and activities related to a broad range of child abuse and neglect prevention activities operated by non-profit or public community educational and service organizations.

Tobacco Settlement Interest – This fund holds interest earned by investing the Tobacco Settlement Principal.

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
JUNE 30, 2005
(expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
ASSETS					
Cash/cash equivalents	$ 910	$ 236	$ 162	$ 999	$ 565
Receivables (net)	655	243	98	89	47
Equity in pooled investments	106,152	17,124	4,995	6,812	-
Investments	-	-	-	3,761	4,420
Securities lending collateral	12,715	2,051	598	1,240	1,122
Total assets	$ 120,432	$ 19,654	$ 5,853	$ 12,901	$ 6,154
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	-	-	-	1	4
Due to other funds	1,310	106	123	64	237
Deferred revenue	-	1	-	-	-
Securities lending liability	12,715	2,051	598	1,240	1,122
Total liabilities	14,025	2,158	721	1,305	1,363
Fund balances:					
Reserved for:					
Trust principal	106,407	17,496	5,132	11,596	4,791
Total fund balances	106,407	17,496	5,132	11,596	4,791
Total liabilities and fund balances	$ 120,432	$ 19,654	$ 5,853	$ 12,901	$ 6,154

HISTORICAL SOCIETY TRUSTS	ENDOWMENT FOR CHILDREN	TOBACCO SETTLEMENT INTEREST	TOTAL
$ 74	$ 1	$ 2,854	$ 5,801
2	-	344	1,478
1,053	-	55,675	191,811
-	-	-	8,181
35	-	6,669	24,430
$ 1,164	$ 1	$ 65,542	$ 231,701
1	-	-	6
-	-	309	2,149
-	-	-	1
35	-	6,669	24,430
36	-	6,978	26,586
1,128	1	58,564	205,115
1,128	1	58,564	205,115
$ 1,164	$ 1	$ 65,542	$ 231,701

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
REVENUES					
Licenses/permits	$ -	$ -	$ -	$ 372	$ -
Taxes:					
Natural resource	252	512	254	-	-
Fuel	-	-	-	-	12
Charges for services/fines/forfeits/settlements	-	-	-	-	-
Investment earnings	8,277	1,313	382	625	148
Securities lending income	260	41	12	35	38
Rentals/leases/royalties	-	-	-	130	-
Grants/contracts/donations	-	-	-	-	-
Total revenues	8,789	1,866	648	1,162	198
EXPENDITURES					
Current:					
Education/cultural	-	-	-	-	-
Capital outlay	-	-	-	-	-
Securities lending	246	39	11	33	35
Total expenditures	246	39	11	33	35
Excess of revenue over (under) expenditures	8,543	1,827	637	1,129	163
OTHER FINANCING SOURCES (USES)					
Transfers out	(6,903)	(993)	(317)	(625)	(237)
Total other financing sources (uses)	(6,903)	(993)	(317)	(625)	(237)
Net change in fund balances	1,640	834	320	504	(74)
Fund balances - July 1 - as previously reported	104,767	16,662	4,812	11,092	4,865
Fund balances - June 30	$ 106,407	$ 17,496	$ 5,132	$ 11,596	$ 4,791

HISTORICAL SOCIETY TRUSTS	ENDOWMENT FOR CHILDREN	TOBACCO SETTLEMENT INTEREST	TOTAL
$ -	$ -	$ -	$ 372
-	-	-	1,018
-	-	-	12
-	-	10,829	10,829
65	-	3,850	14,660
1	-	119	506
-	-	-	130
19	-	-	19
85	-	14,798	27,546
8	-	-	8
19	-	-	19
1	-	113	478
28	-	113	505
57	-	14,685	27,041
-	-	(2,881)	(11,956)
-	-	(2,881)	(11,956)
57	-	11,804	15,085
1,071	1	46,760	190,030
$ 1,128	$ 1	$ 58,564	$ 205,115

NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that provide goods or services to the public on a user charge basis. A brief description of each enterprise fund follows:

Liquor Warehouse – This fund accounts for activities related to the sale and distribution of alcoholic beverages and licensing within the State. Profits and license fees are used to finance General Fund expenditures.

Hail Insurance – Any producer engaged in the growing of crops subject to damage by hail may participate in the hail insurance program. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and benefits paid by the Department of Agriculture.

State Lottery – This fund accounts for the operations of Montana's lottery.

Prison Industries – These operations provide training and employment for inmates. The products produced are sold to state agencies, non-profit organizations, and other customers in accordance with state policies.

MUS Group Insurance – This fund accounts for employee contributions to the Montana University System's medical/dental self-insurance plan.

MUS Workers Compensation – This fund accounts for self-insured workers compensation coverage for employees of the Montana University System.

Subsequent Injury – This fund accounts for the assessments collected from employers and benefits paid to workers who are certified as vocationally handicapped and are injured on the job.

Secretary of State Business Services – This fund accounts for the Business and Government Services activities and the Administrative Code Program of the Secretary of State's Office.

Historical Society Publications – This fund accounts for the Historical Society's sales from "Montana, The Magazine of Western History"; books; publications; and merchandise from the Historical Society store.

Surplus Property – The Department of Administration accounts for intragovernmental sales of state and federal surplus property to state agencies, local governments, and designated non-profit organizations.

West Yellowstone Airport – This fund, administered by the Department of Transportation, accounts for operations of the airport at West Yellowstone. User airlines are assessed rental and landing fees.

Local Government Audits – This fund accounts for the costs incurred by the Department of Administration for audits of local governments, required under Sections 2-7-501 through 522 of the Montana Code Annotated, and the fees assessed the local governments for the audits.

Flexible Spending Administration – This fund accounts for the fees collected from the participants in the Flexible Spending Programs and the related administrative costs of the plans administered by the Department of Administration and the Office of the Commissioner of Higher Education.

HUD Section 8 Housing – This fund accounts for a program that provides rental assistance to low-income families throughout Montana.

Other Enterprise Funds – This category includes several small enterprise funds administered by various agencies.

COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2005
(expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	$ 1,960	$ 9,392	$ 349	$ 1,945
Receivables (net)	12,237	3,411	1,350	368
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	3	-	-	104
Due from component units	1	-	-	2
Inventories	54	-	1,101	5,124
Securities lending collateral	-	-	-	-
Other current assets	78	-	22	-
Total current assets	14,333	12,803	2,822	7,543
Noncurrent assets:				
Advances to other funds	75	-	-	120
Long-term investments	-	-	-	-
Long-term notes/loans receivable	-	-	-	-
Deferred charges	-	-	-	-
Other long-term assets	-	-	1,326	292
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	240
Buildings/improvements	2,033	-	-	3,460
Equipment	347	-	5,564	3,522
Infrastructure	-	-	-	884
Construction in progress	-	-	-	868
Intangible assets	-	-	123	-
Less accumulated depreciation	(1,381)	-	(4,820)	(4,879)
Total capital assets	999	-	867	4,785
Total noncurrent assets	1,074	-	2,193	5,197
Total assets	15,407	12,803	5,015	12,740

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERY
$ 24,205	$ 2,426	$ 71	$ 2,897	$ 230	$ 1
130	10	16	6	43	3
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	17	-	1
-	291	53	3	-	-
-	-	-	19	475	72
-	-	410	-	-	-
-	184	-	6	-	1
24,335	2,911	550	2,948	748	78
-	-	-	-	-	-
-	1,555	1,701	-	-	-
-	-	-	-	-	3
-	28	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	118
-	-	-	318	11	146
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	510	-	-
-	-	-	(154)	(10)	(142)
-	-	-	674	1	122
-	1,583	1,701	674	1	125
24,335	4,494	2,251	3,622	749	203

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COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2005
(expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS			
Current assets:			
Cash/cash equivalents	$ 372	$ 248	$ 306
Receivables (net)	-	-	211
Interfund loans receivable	9	-	-
Due from other governments	-	-	-
Due from other funds	-	-	-
Due from component units	-	-	-
Inventories	-	-	-
Securities lending collateral	-	-	-
Other current assets	-	-	-
Total current assets	381	248	517
Noncurrent assets:			
Advances to other funds	-	-	-
Long-term investments	-	-	-
Long-term notes/loans receivable	-	-	-
Deferred charges	-	-	-
Other long-term assets	-	-	-
Capital assets:			
Land	110	-	-
Land improvements	2,103	-	-
Buildings/improvements	487	-	-
Equipment	71	-	-
Infrastructure	-	-	-
Construction in progress	-	-	-
Intangible assets	-	-	-
Less accumulated depreciation	(613)	-	-
Total capital assets	2,158	-	-
Total noncurrent assets	2,158	-	-
Total assets	2,539	248	517

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 3,491	$ 247	$ 48,140
42	-	17,827
-	-	9
304	-	304
-	11	136
-	-	350
-	69	6,914
-	-	410
2	-	293
3,839	327	74,383
-	-	195
-	-	3,256
305	-	308
-	-	28
-	-	1,618
-	-	800
-	-	2,343
-	-	6,098
69	13	10,061
-	-	884
-	-	868
28	-	661
(45)	(1)	(12,045)
52	12	9,670
357	12	15,075
4,196	339	89,458

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2005
(expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
LIABILITIES				
Current liabilities:				
Accounts payable	$ 4,155	$ 9	$ 526	$ 190
Lottery prizes payable	-	-	1,436	-
Interfund loans payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	7,230	61	1,534	36
Due to component units	-	-	-	-
Deferred revenue	1,355	1,019	101	8
Bonds/notes payable (net)	-	-	-	-
Amounts held in custody for others	80	-	-	-
Securities lending liability	-	-	-	-
Estimated insurance claims	-	191	-	-
Compensated absences payable	92	10	97	87
Total current liabilities	12,912	1,290	3,694	321
Noncurrent liabilities:				
Lottery prizes payable	-	-	1,258	-
Bonds/notes payable (net)	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	89	10	63	147
Total noncurrent liabilities	89	10	1,321	147
Total liabilities	13,001	1,300	5,015	468
NET ASSETS				
Invested in capital assets, net of related debt	999	-	867	4,785
Restricted for:				
Other purposes	-	11,503	-	-
Unrestricted	1,407	-	(867)	7,487
Total net assets	$ 2,406	$ 11,503	$ -	$ 12,272

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERY
$ 756	$ 18	$ 3	$ 154	$ 30	$ 14
-	-	-	-	-	-
-	-	-	-	-	146
-	-	-	-	-	-
1	-	-	29	26	2
1	-	-	-	-	-
-	-	-	140	119	-
-	410	-	-	-	-
-	-	-	19	-	-
-	-	410	-	-	-
4,619	2,354	250	-	-	-
17	-	-	119	42	17
5,394	2,782	663	461	217	179
-	-	-	-	-	-
-	850	-	-	-	-
-	784	2,415	-	-	-
46	-	-	57	31	5
46	1,634	2,415	57	31	5
5,440	4,416	3,078	518	248	184
-	-	-	674	1	122
18,895	78	-	-	-	-
-	-	(827)	2,430	500	(103)
$ 18,895	$ 78	$ (827)	$ 3,104	$ 501	$ 19

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2005
(expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
LIABILITIES			
Current liabilities:			
Accounts payable	$ 7	$ 12	$ 28
Lottery prizes payable	-	-	-
Interfund loans payable	-	-	-
Due to other governments	-	-	-
Due to other funds	1	2	-
Due to component units	-	-	-
Deferred revenue	-	-	-
Bonds/notes payable (net)	-	-	-
Amounts held in custody for others	1	-	-
Securities lending liability	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	4	15	-
Total current liabilities	13	29	28
Noncurrent liabilities:			
Lottery prizes payable	-	-	-
Bonds/notes payable (net)	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	-	40	-
Total noncurrent liabilities	-	40	-
Total liabilities	13	69	28
NET ASSETS			
Invested in capital assets, net of related debt	2,158	-	-
Restricted for:			
Other purposes	368	-	-
Unrestricted	-	179	489
Total net assets	$ 2,526	$ 179	$ 489

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 55	$ 56	$ 6,013
-	-	1,436
-	-	146
879	-	879
17	28	8,967
-	-	1
-	-	2,742
-	-	410
-	-	100
-	-	410
-	-	7,414
68	5	573
1,019	89	29,091
-	-	1,258
-	-	850
-	-	3,199
30	11	529
30	11	5,836
1,049	100	34,927
52	12	9,670
-	9	30,853
3,095	218	14,008
$ 3,147	$ 239	$ 54,531

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	$ 51,947	$ -	$ 33,815	$ 5,231
Investment earnings	-	158	62	-
Securities lending income	-	-	-	-
Contributions/premiums	-	7,398	-	-
Grants/contracts/donations	-	-	-	-
Taxes	15,624	-	-	-
Other operating revenues	147	6	27	2
Total operating revenues	67,718	7,562	33,904	5,233
Operating expenses:				
Personal services	1,978	212	1,456	1,847
Contractual services	372	134	5,222	141
Supplies/materials	42,774	1	1,041	1,548
Benefits/claims	-	1,974	-	-
Depreciation	97	-	905	605
Amortization	-	-	164	-
Utilities/rent	124	6	111	209
Communications	67	7	698	16
Travel	15	24	32	15
Repair/maintenance	20	-	25	316
Grants	-	-	-	-
Lottery prize payments	-	-	17,804	-
Interest expense	-	-	-	-
Securities lending expense	-	-	-	-
Dividend expense	-	791	-	-
Other operating expenses	55	4	223	378
Total operating expenses	45,502	3,153	27,681	5,075
Operating income (loss)	22,216	4,409	6,223	158
Nonoperating revenues (expenses):				
Gain (loss) on sale of capital assets	(1)	-	-	-
Increase (decrease) value of livestock	-	-	-	(193)
Total nonoperating revenues (expenses)	(1)	-	-	(193)
Income (loss) before contributions and transfers	22,215	4,409	6,223	(35)
Capital contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(22,700)	(38)	(6,223)	-
Change in net assets	(485)	4,371	-	(35)
Total net assets - July 1 - as previously reported	2,891	7,132	-	12,305
Prior period adjustments	-	-	-	2
Total net assets - July 1 - as restated	2,891	7,132	-	12,307
Total net assets - June 30	$ 2,406	$ 11,503	$ -	$ 12,272

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERY
$ -	$ -	$ 319	$ 3,647	$ 949	$ 267
410	69	46	30	-	-
-	-	12	-	-	-
47,739	2,978	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
263	-	-	61	6	-
48,412	3,047	377	3,738	955	267
159	-	-	1,967	461	188
2,456	395	-	505	119	28
23	-	-	152	295	198
37,491	2,366	635	-	-	-
-	-	-	28	-	15
-	-	-	113	-	-
4	-	-	148	1	21
3	-	-	159	50	9
3	-	-	24	4	-
-	-	-	19	8	3
-	-	-	-	-	-
-	-	-	-	-	-
-	58	-	-	-	-
-	-	11	-	-	-
-	-	-	-	-	-
385	23	-	32	54	10
40,524	2,842	646	3,147	992	472
7,888	205	(269)	591	(37)	(205)
-	-	-	-	-	(12)
-	-	-	-	-	-
-	-	-	-	-	(12)
7,888	205	(269)	591	(37)	(217)
-	-	-	-	-	159
-	-	-	2	48	-
-	-	(31)	-	-	-
7,888	205	(300)	593	11	(58)
11,007	(127)	(527)	2,515	493	90
-	-	-	(4)	(3)	(13)
11,007	(127)	(527)	2,511	490	77
$ 18,895	$ 78	$ (827)	$ 3,104	$ 501	$ 19

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:			
Charges for services	$ 26	$ 275	$ 102
Investment earnings	-	-	3
Securities lending income	-	-	-
Contributions/premiums	-	-	8,217
Grants/contracts/donations	-	-	-
Taxes	-	-	-
Other operating revenues	82	-	-
Total operating revenues	108	275	8,322
Operating expenses:			
Personal services	46	203	-
Contractual services	39	23	391
Supplies/materials	3	5	-
Benefits/claims	-	-	7,778
Depreciation	45	-	-
Amortization	-	-	-
Utilities/rent	23	28	-
Communications	3	5	-
Travel	1	2	-
Repair/maintenance	11	-	-
Grants	-	-	-
Lottery prize payments	-	-	-
Interest expense	-	-	-
Securities lending expense	-	-	-
Dividend expense	-	-	-
Other operating expenses	1	19	103
Total operating expenses	172	285	8,272
Operating income (loss)	(64)	(10)	50
Nonoperating revenues (expenses):			
Gain (loss) sale of capital assets	-	-	-
Increase (decrease) value of livestock	-	-	-
Total nonoperating revenues (expenses)	-	-	-
Income (loss) before contributions and transfers	(64)	(10)	50
Capital contributions	1,787	-	-
Transfers in	13	-	-
Transfers out	-	-	-
Change in net assets	1,736	(10)	50
Total net assets - July 1 - as previously reported	828	189	458
Prior period adjustments	(38)	-	(19)
Total net assets - July 1 - as restated	790	189	439
Total net assets - June 30	$ 2,526	$ 179	$ 489

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ -	$ 379	$ 96,957
83	2	863
-	-	12
-	-	66,332
36,211	-	36,211
-	-	15,624
1	49	644
36,295	430	216,643
832	131	9,480
105	97	10,027
27	72	46,139
33,208	-	83,452
11	1	1,707
10	-	287
88	12	775
51	5	1,073
42	22	184
9	18	429
1,417	-	1,417
-	-	17,804
-	-	58
-	-	11
-	-	791
138	30	1,455
35,938	388	175,089
357	42	41,554
(4)	-	(17)
-	-	(193)
(4)	-	(210)
353	42	41,344
-	-	1,946
-	-	63
-	-	(28,992)
353	42	14,361
2,794	197	40,245
-	-	(75)
2,794	197	40,170
$ 3,147	$ 239	$ 54,531

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	$ 52,335	$ 4,876	$ 33,671	$ 5,247
Payments to suppliers for goods and services	(43,166)	(209)	(7,302)	(2,900)
Payments to employees	(1,978)	(213)	(1,465)	(1,806)
Grant receipts	-	-	-	-
Grant payments	-	-	-	-
Cash payments for claims	-	(1,877)	-	-
Cash payments for prizes	-	-	(17,974)	-
Other operating revenues	147	5	-	2
Other operating payments	-	(791)	-	-
Net cash provided by (used for) operating activities	7,338	1,791	6,930	543
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	15,623	-	-	-
Transfers to other funds	(22,712)	(38)	(6,885)	-
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	60
Payments of interfund loans/advances	-	-	-	-
Payment of external loan	-	-	-	-
Collection of principal and interest on loans	-	-	-	-
Payment of principal and interest on bonds and notes	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(7,089)	(38)	(6,885)	60
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(18)	-	(18)	(679)
Proceeds from sale of capital assets	-	-	3	-
Net cash used for capital and related financing activities	(18)	-	(15)	(679)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	-	-
Proceeds from sales or maturities of investments	-	-	-	-
Proceeds from securities lending transactions	-	-	-	-
Interest and dividends on investments	-	158	21	-
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	158	21	-
Net increase (decrease) in cash and cash equivalents	231	1,911	51	(76)
Cash and cash equivalents, July 1	1,729	7,481	298	2,021
Cash and cash equivalents, June 30	$ 1,960	$ 9,392	$ 349	$ 1,945

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERY
48,345	$ 2,915	$ 275	$ 3,413	$ 917	$ 503
(2,934)	(588)	-	(928)	(568)	(301)
(159)	-	-	(1,988)	(454)	(195)
-	-	-	-	-	-
-	-	-	-	-	-
(37,873)	(850)	(333)	-	-	-
-	-	-	-	-	-
267	-	-	61	6	-
-	-	-	-	-	-
7,646	1,477	(58)	558	(99)	7
-	-	-	-	-	-
-	-	(31)	-	(1)	-
-	-	-	2	48	-
-	-	-	-	-	146
-	-	-	-	-	(175)
-	-	-	-	-	-
-	-	-	-	-	-
-	(445)	-	-	-	-
-	(445)	(31)	2	47	(29)
-	-	-	(72)	-	(25)
-	-	-	-	-	-
-	-	-	(72)	-	(25)
-	-	(497)	-	-	-
-	278	396	-	-	-
-	-	12	-	-	-
410	84	81	30	-	-
-	-	(11)	-	-	-
410	362	(19)	30	-	-
8,056	1,394	(108)	518	(52)	(47)
16,149	1,032	179	2,379	282	48
24,205	$ 2,426	$ 71	$ 2,897	$ 230	1

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from sales and services	$ 26	$ 276	$ 8,609
Payments to suppliers for goods and services	(154)	(81)	(491)
Payments to employees	(45)	(197)	-
Grant receipts	-	-	-
Grant payments	-	-	-
Cash payments for claims	-	-	(7,926)
Cash payments for prizes	-	-	-
Other operating revenues	82	-	-
Other operating payments	-	-	-
Net cash provided by (used for) operating activities	(91)	(2)	192
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Collection of taxes	-	-	-
Transfers to other funds	-	-	-
Transfers from other funds	13	-	-
Proceeds from interfund loans/advances	1,641	-	-
Payments of interfund loans/advances	(1,557)	-	(120)
Payment of external loan	-	-	-
Collection of principal and interest on loans	-	-	-
Payment of principal and interest on bonds and notes	-	-	-
Net cash provided by (used for) noncapital financing activities	97	-	(120)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(155)	-	-
Proceeds from sale of capital assets	-	-	-
Net cash used for capital and related financing activities	(155)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	-	-	-
Proceeds from sales or maturities of investments	-	-	-
Proceeds from securities lending transactions	-	-	-
Interest and dividends on investments	-	-	3
Payment of securities lending costs	-	-	-
Net cash provided by (used for) investing activities	-	-	3
Net increase (decrease) in cash and cash equivalents	(149)	(2)	75
Cash and cash equivalents, July 1	521	250	231
Cash and cash equivalents, June 30	$ 372	$ 248	$ 306

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ -	$ 375	$ 161,783
(33,644)	(227)	(93,493)
(873)	(107)	(9,480)
36,717	-	36,717
(1,347)	-	(1,347)
-	-	(48,859)
-	-	(17,974)
1	49	620
-	-	(791)
854	90	27,176
-	-	15,623
-	-	(29,667)
-	-	63
-	-	1,847
-	-	(1,852)
(200)	-	(200)
561	-	561
-	-	(445)
361	-	(14,070)
(8)	(13)	(988)
-	-	3
(8)	(13)	(985)
-	-	(497)
-	-	674
-	-	12
69	2	858
-	-	(11)
69	2	1,036
1,276	79	13,157
2,215	168	34,983
$ 3,491	$ 247	$ 48,140

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ 22,216	$ 4,409	$ 6,223	$ 158
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	97	-	905	605
Amortization	-	-	164	-
Taxes	(15,624)	-	-	-
Interest expense	-	-	-	-
Securities lending expense	-	-	-	-
Investment earnings	-	(158)	(62)	-
Securities lending income	-	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	116	(1,605)	(201)	(22)
Decr (incr) in due from other funds	(2)	-	-	52
Decr (incr) in due from component units	-	-	-	14
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	21	-	(67)	(214)
Decr (incr) in other assets	(60)	-	36	-
Incr (decr) in accounts payable	249	-	51	(28)
Incr (decr) in lottery prizes payable	-	-	(118)	-
Incr (decr) in due to other funds	(20)	(33)	(2)	11
Incr (decr) in due to component units	-	-	-	-
Incr (decr) in due to other governments	-	-	-	-
Incr (decr) in deferred revenue	271	(918)	37	(19)
Incr (decr) in amounts held in custody for others	60	-	(6)	-
Incr (decr) in compensated absences payable	14	-	(30)	(14)
Incr (decr) in estimated claims	-	96	-	-
Net cash provided by (used for) operating activities	$ 7,338	$ 1,791	$ 6,930	$ 543
Schedule of noncash transactions:				
Amortization of bond issuance costs	$ -	$ -	$ -	$ -
Incr (decr) in fair value of investments	-	-	-	-
Total noncash transactions	$ -	$ -	$ -	$ -

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERY
7,888	$ 205	$ (269)	$ 591	$ (37)	$ (205)
-	-	-	28	-	15
-	-	-	113	-	-
-	-	-	-	-	-
-	58	-	-	-	-
-	-	11	-	-	-
(410)	(69)	(46)	(30)	-	-
-	-	(12)	-	-	-
596	-	1	1	(39)	20
-	2	-	(2)	1	19
14	(66)	(44)	(2)	-	2
-	-	-	-	-	-
-	-	-	41	(19)	168
-	(183)	-	114	-	-
(402)	14	-	(16)	(3)	4
-	-	-	-	-	-
-	-	-	(10)	2	(7)
1	-	-	(1)	-	-
-	-	-	-	-	-
-	-	-	(95)	(7)	-
-	-	-	(138)	-	-
2	-	-	(36)	3	(9)
(43)	1,516	301	-	-	-
7,646	$ 1,477	$ (58)	$ 558	$ (99)	$ 7
-	$ 8	$ -	$ -	$ -	$ -
-	9	(31)	-	-	-
-	$ 17	$ (31)	$ -	$ -	$ -

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	$ (64)	$ (10)	$ 50
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation	45	-	-
Amortization	-	-	-
Taxes	-	-	-
Interest expense	-	-	-
Securities lending expense	-	-	-
Investment earnings	-	-	(3)
Securities lending income	-	-	-
Change in assets and liabilities:			
Decr (incr) in accounts receivable	-	-	76
Decr (incr) in due from other funds	-	-	5
Decr (incr) in due from component units	-	-	-
Decr (incr) in due from other governments	-	-	-
Decr (incr) in inventories	-	-	-
Decr (incr) in other assets	-	-	62
Incr (decr) in accounts payable	(74)	3	2
Incr (decr) in lottery prizes payable	-	-	-
Incr (decr) in due to other funds	1	1	-
Incr (decr) in due to component units	-	-	-
Incr (decr) in due to other governments	-	-	-
Incr (decr) in deferred revenue	-	-	-
Incr (decr) in amounts held in custody for others	-	-	-
Incr (decr) in compensated absences payable	1	4	-
Incr (decr) in estimated claims	-	-	-
Net cash provided by (used for) operating activities	$ (91)	$ (2)	$ 192
Schedule of noncash transactions:			
Amortization of bond issuance costs	$ -	$ -	$ -
Incr (decr) in fair value of investments	-	-	-
Total noncash transactions	$ -	$ -	$ -

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
$ 357	$ 42	$ 41,554
11	1	1,707
10	-	287
-	-	(15,624)
-	-	58
-	-	11
(83)	(2)	(863)
-	-	(12)
69	-	(988)
23	2	100
-	-	(82)
(81)	-	(81)
-	(2)	(72)
14	-	(17)
2	25	(173)
-	-	(118)
(12)	24	(45)
-	-	-
586	-	586
(1)	(5)	(737)
-	-	(84)
(41)	5	(101)
-	-	1,870
$ 854	$ 90	$ 27,176
$ -	$ -	$ 8
-	-	(22)
$ -	$ -	$ (14)

INTERNAL SERVICE FUNDS

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. A brief description of each internal service fund follows:

FWP Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of FWP equipment.

Highway Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of Department of Transportation equipment.

Employee Group Benefits – This fund receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan. The State contracted with Blue Cross and Blue Shield of Montana to oversee the administrative functions of the program.

Information Technology Services Division – State agencies and private users are assessed a fee for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

Administration Insurance – In this fund, the Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

Administration Supply – This fund is used by the Department of Administration to account for intragovernmental sales of office supplies and paper products to state agencies.

Motor Pool – State employee transportation is provided by the Department of Transportation through a pool of vehicles. The cost of operating the Motor Pool is recovered through rental rates charged to user agencies based on the average operating costs per mile for each class of vehicle.

Print & Mail Services – Agencies are assessed a fee for duplicating, typesetting, forms design, and graphic arts services.

Buildings & Grounds – Rental proceeds from state agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

Central Service Funds – This fund group consists of four funds, used by the Department of Administration, the Department of Labor and Industry, the Department of Commerce, and the Office of Public Instruction, for administrative services provided on a cost recovery basis to programs within the departments.

DEQ Indirect Cost Pool – This fund is used to account for funds collected as indirect costs from the operating units of the Department of Environmental Quality and to fund the department's indirect cost pool operations that provide services to the department.

Payroll Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of payroll warrants.

Warrant Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of all warrants other than payroll.

Investment Division – This fund accounts for costs associated with operations of the Board of Investments (BOI). BOI assists agencies in the investment of state funds. Costs of administering and accounting for each investment fund are allocated based on the dollar volume of investments held by user agencies.

Aircraft Operation – This fund is used by the Department of State Lands to account for fees charged to users of state aircraft.

Justice Legal Services – The Attorney General's Office and the Department of Justice charge other state agencies a fee for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

Personnel Training – This fund accounts for fees charged to state agencies for training state employees. The fees are used by the Department of Administration to pay instructors and purchase training materials.

Debt Collection – The debt collection component of this fund accounts for fees charged for the collection of bad debts.

Prison Industries – These operations provide training and employment for inmates, where the products produced are primarily sold to other state agencies.

Other Internal Services – This category includes several small internal service funds administered by various agencies.

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2005
(expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	$ 100	$ 125	$ 18,584	$ 1,097	$ 11,210
Receivables (net)	13	38	3,739	65	-
Interfund loans receivable	-	-	25	436	-
Due from other governments	1	-	-	-	-
Due from other funds	222	12	9	2,673	7
Due from component units	-	-	-	314	1
Inventories	-	1,283	-	-	-
Securities lending collateral	-	-	232	-	-
Other current assets	5	-	5	1	-
Total current assets	341	1,458	22,594	4,586	11,218
Noncurrent assets:					
Long-term investments	-	-	12,898	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	-	-
Equipment	9,909	117,773	17	37,058	-
Construction in progress	-	3,323	-	33	105
Intangible assets	-	-	97	1,060	-
Less accumulated depreciation	(3,539)	(61,293)	(16)	(32,335)	-
Total capital assets	6,370	59,803	98	5,816	105
Total noncurrent assets	6,370	59,803	12,996	5,816	105
Total assets	6,711	61,261	35,590	10,402	11,323
LIABILITIES					
Current liabilities:					
Accounts payable	110	984	1,397	1,845	516
Interfund loans payable	100	1,000	-	-	-
Due to other funds	3	1	11	24	44
Due to component units	-	-	-	12	2
Deferred revenue	-	-	965	-	-
Lease/installment purchase payable	-	-	-	118	-
Amounts held in custody for others	-	-	-	28	-
Securities lending liability	-	-	232	-	-
Estimated insurance claims	-	-	9,329	-	6,935
Compensated absences payable	6	457	41	825	48
Total current liabilities	219	2,442	11,975	2,852	7,545
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Lease/installment purchase payable	-	-	-	738	-
Estimated insurance claims	-	-	2,346	-	13,393
Compensated absences payable	-	353	28	597	95
Total noncurrent liabilities	-	353	2,374	1,335	13,488
Total liabilities	219	2,795	14,349	4,187	21,033
NET ASSETS					
Invested in capital assets, net of related debt	6,370	59,803	98	4,960	105
Unrestricted	122	(1,337)	21,143	1,255	(9,815)
Total net assets	$ 6,492	$ 58,466	$ 21,241	$ 6,215	$ (9,710)

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 160	$ 16	$ 379	$ 1,291	$ 167	$ 691	$ 303	$ 178
20	-	12	1	-	1	-	-
146	-	-	-	-	-	-	-
-	1	-	-	-	-	-	-
131	366	676	54	4	221	56	253
9	2	33	-	-	12	12	-
402	11	152	-	-	-	-	-
-	-	-	-	-	-	-	-
8	-	484	-	-	-	1	-
876	396	1,736	1,346	171	925	372	431
-	-	-	-	-	-	-	-
-	236	-	-	-	-	-	-
-	-	-	95	-	-	-	-
-	-	-	32	-	-	-	-
115	14,587	1,637	335	-	293	33	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(98)	(4,959)	(929)	(263)	-	(208)	(25)	-
17	9,864	708	199	-	85	8	-
17	9,864	708	199	-	85	8	-
893	10,260	2,444	1,545	171	1,010	380	431
122	227	243	331	40	313	60	147
-	1,300	-	-	29	2	-	-
2	2,201	9	7	2	27	5	31
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	3	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
18	20	59	111	36	245	61	94
142	3,748	311	452	107	587	126	272
-	4,292	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
32	14	50	15	93	158	89	34
32	4,306	50	15	93	158	89	34
174	8,054	361	467	200	745	215	306
17	9,864	708	199	-	85	8	-
702	(7,658)	1,375	879	(29)	180	157	125
$ 719	$ 2,206	$ 2,083	$ 1,078	$ (29)	$ 265	$ 165	$ 125

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
INTERNAL SERVICE FUNDS
JUNE 30, 2005
(expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
ASSETS				
Current assets:				
Cash/cash equivalents	$ 978	$ 181	$ 150	$ 742
Receivables (net)	-	-	-	-
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	253	-	53	45
Due from component units	14	-	27	30
Inventories	-	-	-	-
Securities lending collateral	-	-	-	-
Other current assets	-	-	-	31
Total current assets	1,245	181	230	848
Noncurrent assets:				
Long-term investments	-	-	-	-
Capital assets:				
Land	-	-	-	-
Land improvements	-	-	-	-
Buildings/improvements	-	-	-	-
Equipment	404	-	34	18
Construction in progress	10	-	-	-
Intangible assets	-	-	-	-
Less accumulated depreciation	(243)	-	(32)	(17)
Total capital assets	171	-	2	1
Total noncurrent assets	171	-	2	1
Total assets	1,416	181	232	849
LIABILITIES				
Current liabilities:				
Accounts payable	237	16	11	109
Interfund loans payable	-	-	-	-
Due to other funds	20	6	63	20
Due to component units	3	-	-	5
Deferred revenue	-	-	-	-
Lease/installment purchase payable	-	-	-	-
Amounts held in custody for others	-	-	-	-
Securities lending liability	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	164	27	13	108
Total current liabilities	424	49	87	242
Noncurrent liabilities:				
Advances from other funds	-	-	-	-
Lease/installment purchase payable	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	150	2	-	129
Total noncurrent liabilities	150	2	-	129
Total liabilities	574	51	87	371
NET ASSETS				
Invested in capital assets, net of related debt	171	-	2	1
Unrestricted	671	130	143	477
Total net assets	$ 842	$ 130	$ 145	$ 478

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
$ 136	$ 33	$ 45	$ 175	$ 487	$ 148	$ 37,376
-	-	2	-	12	-	3,903
-	-	-	-	-	-	607
-	-	-	-	-	-	2
41	98	12	-	284	5	5,475
-	-	-	-	-	-	454
-	-	-	-	129	105	2,082
-	-	-	-	-	-	232
-	-	-	-	-	-	535
177	131	59	175	912	258	50,666
-	-	-	-	-	-	12,898
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	-	2,820	-	2,852
41	-	-	-	1,191	69	183,514
-	-	-	-	-	-	3,471
-	-	-	-	-	-	1,157
(22)	-	-	-	(742)	(54)	(104,775)
19	-	-	-	3,269	15	86,550
19	-	-	-	3,269	15	99,448
196	131	59	175	4,181	273	150,114
47	54	10	2	66	3	6,890
-	-	-	-	-	-	2,431
-	3	1	13	12	3	2,508
-	-	-	-	-	-	22
-	-	-	-	-	-	965
-	-	-	-	-	-	118
-	-	-	-	-	-	31
-	-	-	-	-	-	232
-	-	-	-	-	-	16,264
18	68	7	3	40	1	2,470
65	125	18	18	118	7	31,931
-	-	-	-	120	-	4,412
-	-	-	-	-	-	738
-	-	-	-	-	-	15,739
44	76	22	-	12	-	1,993
44	76	22	-	132	-	22,882
109	201	40	18	250	7	54,813
19	-	-	-	3,269	15	85,694
68	(70)	19	157	662	251	9,607
$ 87	$ (70)	$ 19	$ 157	$ 3,931	$ 266	$ 95,301

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
Operating revenues:					
Charges for services	$ 2,224	$ 18,524	$ 10	$ 32,234	$ -
Investment earnings	-	-	576	-	283
Securities lending income	-	-	21	-	-
Contributions/premiums	-	-	93,656	-	15,284
Other operating revenues	8	14	924	31	24
Total operating revenues	2,232	18,538	95,187	32,265	15,591
Operating expenses:					
Personal services	96	6,133	829	10,557	656
Contractual services	80	469	3,231	3,038	4,257
Supplies/materials	867	908	33	1,698	21
Benefits/claims	-	-	81,569	-	88
Depreciation	609	5,875	-	2,719	-
Amortization	-	-	11	643	-
Utilities/rent	17	108	26	5,048	62
Communications	5	9	59	5,468	16
Travel	14	32	12	157	16
Repair/maintenance	505	3,077	14	1,995	1
Interest expense	-	-	-	32	-
Securities lending expense	-	-	20	-	-
Other operating expenses	3	228	297	866	95
Total operating expenses	2,196	16,839	86,101	32,221	5,212
Operating income (loss)	36	1,699	9,086	44	10,379
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	(297)	(66)	-	(30)	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(297)	(66)	-	(30)	-
Income (loss) before contributions and transfers	(261)	1,633	9,086	14	10,379
Transfers in	158	-	-	-	1,134
Transfers out	-	-	(150)	-	(10)
Change in net assets	(103)	1,633	8,936	14	11,503
Total net assets - July 1 - as previously reported	6,595	56,819	9,563	6,335	(21,213)
Prior period adjustments	-	14	2,742	(134)	-
Total net assets - July 1 - as restated	6,595	56,833	12,305	6,201	(21,213)
Total net assets - June 30	$ 6,492	$ 58,466	21,241	$ 6,215	$ (9,710)

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,567	$ 3,668	$ 9,058	$ 6,530	$ 775	$ 3,873	$ 26	$ 670
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	30	-	-	-	-	844	3
4,567	3,698	9,058	6,530	775	3,873	870	673
316	285	1,118	1,186	640	3,731	911	1,044
62	186	81	2,530	37	324	43	279
4,106	1,136	4,080	150	12	144	43	70
-	-	-	-	-	-	-	-
5	1,584	164	26	-	24	6	-
-	-	-	-	-	-	-	-
96	146	174	2,167	31	335	85	128
24	3	2,831	25	9	54	16	72
-	-	5	12	9	26	6	4
2	204	276	995	2	20	1	33
-	239	-	-	-	-	-	-
-	-	-	-	-	-	-	-
23	11	55	166	16	256	4	13
4,634	3,794	8,784	7,257	756	4,914	1,115	1,643
(67)	(96)	274	(727)	19	(1,041)	(245)	(970)
(5)	(335)	(17)	-	-	-	-	-
-	-	-	-	-	1,088	111	1,139
(5)	(335)	(17)	-	-	1,088	111	1,139
(72)	(431)	257	(727)	19	47	(134)	169
-	-	-	1,037	-	-	-	-
-	-	-	(21)	-	-	-	-
(72)	(431)	257	289	19	47	(134)	169
790	2,651	1,662	781	(48)	218	299	(44)
1	(14)	164	8	-	-	-	-
791	2,637	1,826	789	(48)	218	299	(44)
$ 719	$ 2,206	$ 2,083	$ 1,078	$ (29)	$ 265	$ 165	$ 125

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
Operating revenues:				
Charges for services	$ 2,105	$ 463	$ 813	$ 2,963
Investment earnings	-	-	-	-
Securities lending income	-	-	-	-
Contributions/premiums	-	-	-	-
Other operating revenues	-	-	-	-
Total operating revenues	2,105	463	813	2,963
Operating expenses:				
Personal services	2,692	246	206	1,779
Contractual services	906	90	105	921
Supplies/materials	178	12	4	57
Benefits/claims	-	-	-	-
Depreciation	52	-	-	1
Amortization	-	-	-	-
Utilities/rent	122	11	12	143
Communications	40	7	425	43
Travel	29	1	-	31
Repair/maintenance	14	1	-	24
Interest expense	-	-	-	-
Securities lending expense	-	-	-	-
Other operating expenses	77	9	50	257
Total operating expenses	4,110	377	802	3,256
Operating income (loss)	(2,005)	86	11	(293)
Nonoperating revenues (expenses):				
Gain (loss) on sale of capital assets	-	-	-	(3)
Federal indirect cost recoveries	1,665	-	-	-
Total nonoperating revenues (expenses)	1,665	-	-	(3)
Income (loss) before contributions and transfers	(340)	86	11	(296)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Change in net assets	(340)	86	11	(296)
Total net assets - July 1 - as previously reported	1,183	44	134	774
Prior period adjustments (Note 3)	(1)	-	-	-
Total net assets - July 1 - as restated	1,182	44	134	774
Total net assets - June 30	$ 842	$ 130	$ 145	$ 478

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
$ 339	$ 1,111	$ 241	$ 184	$ 3,319	$ 214	$ 93,911
-	-	-	-	-	-	859
-	-	-	-	-	-	21
-	-	-	-	-	-	108,940
-	-	-	-	-	28	1,906
339	1,111	241	184	3,319	242	205,637
413	885	127	131	951	83	35,015
88	115	28	14	20	9	16,913
67	16	21	-	2,007	133	15,763
-	-	-	-	-	-	81,657
2	-	-	-	205	4	11,276
-	-	-	-	-	-	654
72	42	23	3	70	5	8,926
5	18	9	7	1	4	9,150
16	5	18	-	3	1	397
269	3	1	-	21	15	7,473
-	-	-	-	-	-	271
-	-	-	-	-	-	20
4	11	7	1	6	1	2,456
936	1,095	234	156	3,284	255	189,971
(597)	16	7	28	35	(13)	15,666
(1)	-	-	-	-	-	(754)
-	-	-	-	-	-	4,003
(1)	-	-	-	-	-	3,249
(598)	16	7	28	35	(13)	18,915
586	-	-	-	-	-	2,915
-	-	(9)	-	-	-	(190)
(12)	16	(2)	28	35	(13)	21,640
99	(86)	21	129	3,896	279	70,881
-	-	-	-	-	-	2,780
99	(86)	21	129	3,896	279	73,661
$ 87	$ (70)	$ 19	$ 157	$ 3,931	$ 266	$ 95,301

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	$ 2,237	$ 19,420	$ 96,092	$ 31,817	$ 15,309
Payments to suppliers for goods and services	(1,598)	(5,888)	(3,692)	(19,442)	(4,273)
Payments to employees	(91)	(5,987)	(800)	(10,629)	(646)
Grant receipts	-	-	-	-	-
Cash payments for claims	-	-	(81,894)	-	(5,286)
Other operating revenues	8	-	675	19	24
Net cash provided by (used for) operating activities	556	7,545	10,381	1,765	5,128
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	-	-
Transfers to other funds	-	-	(150)	(124)	(122)
Transfers from other funds	159	14	-	-	1,134
Proceeds from interfund loans/advances	300	3,000	-	374	-
Payment of interfund loans/advances	(350)	(2,000)	(25)	(436)	-
Net cash provided by (used for) noncapital financing activities	109	1,014	(175)	(186)	1,012
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(863)	(9,005)	(98)	(2,333)	(103)
Proceeds from sale of capital assets	136	519	-	-	-
Principal and interest payments on bonds and notes	-	-	-	(120)	-
Net cash used for capital and related financing activities	(727)	(8,486)	(98)	(2,453)	(103)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	-	(10,000)	-	-
Proceeds from sales or maturities of investments	-	-	1,350	-	-
Proceeds from securities lending transactions	-	-	21	-	-
Interest and dividends on investments	-	-	593	-	283
Payment of securities lending costs	-	-	(20)	-	-
Net cash provided by (used for) investing activities	-	-	(8,056)	-	283
Net increase (decrease) in cash and cash equivalents	(62)	73	2,052	(874)	6,320
Cash and cash equivalents, July 1	162	52	16,532	1,971	4,890
Cash and cash equivalents, June 30	$ 100	$ 125	$ 18,584	$ 1,097	$ 11,210

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ 4,654	$ 3,643	$ 8,954	$ 6,696	$ 775	$ 3,850	$ 106	$ 619
(4,456)	(1,586)	(7,560)	(6,110)	(115)	(1,314)	(194)	(608)
(317)	(280)	(1,147)	(1,178)	(635)	(3,797)	(929)	(922)
-	-	-	-	-	1,091	103	1,043
-	-	-	-	-	-	-	-
-	29	-	-	-	-	844	3
(119)	1,806	247	(592)	25	(170)	(70)	135
-	(199)	-	-	-	-	-	-
-	(14)	-	(21)	-	-	-	-
-	-	-	1,119	-	-	-	-
175	6,683	-	-	29	2	25	-
(146)	(5,923)	-	-	(10)	(7)	-	-
29	547	-	1,098	19	(5)	25	-
-	(3,678)	(61)	(14)	-	(23)	-	-
-	828	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	(2,850)	(61)	(14)	-	(23)	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(90)	(497)	186	492	44	(198)	(45)	135
250	513	193	799	123	889	348	43
$ 160	$ 16	$ 379	$ 1,291	$ 167	$ 691	$ 303	$ 178

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	$ 2,150	$ 463	$ 823	$ 2,983
Payments to suppliers for goods and services	(1,407)	(130)	(593)	(1,491)
Payments to employees	(2,736)	(253)	(202)	(1,861)
Grant receipts	1,663	-	-	-
Cash payments for claims	-	-	-	-
Other operating revenues	6	-	-	-
Net cash provided by (used for) operating activities	(324)	80	28	(369)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payment of principal and interest on bonds and notes	-	-	-	-
Transfers to other funds	(1)	-	-	-
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payment of interfund loans/advances	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(1)	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(87)	-	-	-
Proceeds from sale of capital assets	-	-	-	-
Principal and interest payments on bonds and notes	-	-	-	-
Net cash used for capital and related financing activities	(87)	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	-	-
Proceeds from sales or maturities of investments	-	-	-	-
Proceeds from securities lending transactions	-	-	-	-
Interest and dividends on investments	-	-	-	-
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(412)	80	28	(369)
Cash and cash equivalents, July 1	1,390	101	122	1,111
Cash and cash equivalents, June 30	$ 978	$ 181	$ 150	$ 742

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
$ 341	$ 1,106	$ 235	$ 184	$ 3,303	$ 219	$ 205,979
(526)	(213)	(113)	(27)	(2,043)	(157)	(63,536)
(382)	(860)	(124)	(122)	(972)	(84)	(34,954)
-	-	-	-	-	-	3,900
-	-	-	-	-	-	(87,180)
-	-	-	-	-	28	1,636
(567)	33	(2)	35	288	6	25,845
-	-	-	-	-	-	(199)
-	-	(9)	-	-	-	(441)
623	-	-	-	-	-	3,049
-	160	-	-	-	-	10,748
-	(260)	-	-	(60)	-	(9,217)
623	(100)	(9)	-	(60)	-	3,940
(6)	-	-	-	(7)	-	(16,278)
-	-	-	-	-	-	1,483
-	-	-	-	-	-	(120)
(6)	-	-	-	(7)	-	(14,915)
-	-	-	-	-	-	(10,000)
-	-	-	-	-	-	1,350
-	-	-	-	-	-	21
-	-	-	-	-	-	876
-	-	-	-	-	-	(20)
-	-	-	-	-	-	(7,773)
50	(67)	(11)	35	221	6	7,097
86	100	56	140	266	142	30,279
$ 136	$ 33	$ 45	$ 175	$ 487	$ 148	$ 37,376

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 36	$ 1,699	$ 9,086	$ 44	$ 10,379
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	609	5,875	-	2,719	-
Amortization	-	-	11	643	-
Interest expense	-	-	-	32	-
Securities lending expense	-	-	20	-	-
Investment earnings	-	-	(576)	-	(283)
Securities lending income	-	-	(21)	-	-
Federal indirect cost recoveries	-	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	(1)	(33)	2,100	(11)	-
Decr (incr) in due from other funds	(8)	914	1	(534)	20
Decr (incr) in due from component units	-	-	-	38	6
Decr (incr) in due from other governments	-	-	-	-	-
Decr (incr) in inventories	-	(1,283)	-	-	-
Decr (incr) in other assets	-	-	(4)	2	-
Incr (decr) in accounts payable	(87)	318	(787)	(1,009)	280
Incr (decr) in due to other funds	3	1	(5)	(48)	(40)
Incr (decr) in due to component units	-	-	-	(21)	(15)
Incr (decr) in deferred revenue	-	-	56	-	-
Incr (decr) in amounts held in custody for others	-	-	-	(16)	-
Incr (decr) in compensated absences payable	4	54	20	(74)	11
Incr (decr) in estimated claims	-	-	480	-	(5,230)
Net cash provided by (used for) operating activities	$ 556	$ 7,545	$ 10,381	$ 1,765	$ 5,128
Schedule of noncash transactions:					
Capital asset acquisitions from capital leases	$ -	$ -	$ -	$ 793	$ -
Incr (decr) in fair value of investments	-	-	(31)	-	-
Total noncash transactions	$ -	$ -	$ (31)	$ 793	$ -

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
$ (67)	$ (96)	$ 274	$ (727)	$ 19	$ (1,041)	$ (245)	$ (970)
5	1,584	164	26	-	24	6	-
-	-	-	-	-	-	-	-
-	239	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,088	111	1,139
49	-	-	2	-	(1)	-	-
37	19	(73)	241	(4)	96	65	(139)
(1)	-	5	1	-	(6)	11	-
-	-	-	-	-	-	-	-
(69)	(11)	(5)	-	-	-	-	-
(1)	-	3	-	-	3	-	-
(70)	111	(42)	(64)	13	(29)	14	103
(1)	(43)	(11)	(78)	-	(229)	(1)	(12)
-	-	-	-	-	-	-	-
-	-	(36)	-	-	-	-	-
-	-	-	3	-	(1)	-	-
(1)	3	(32)	4	(3)	(74)	(31)	14
-	-	-	-	-	-	-	-
$ (119)	$ 1,806	$ 247	$ (592)	$ 25	$ (170)	$ (70)	$ 135
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$ (2,005)	$ 86	$ 11	$ (293)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	52	-	-	1
Amortization	-	-	-	-
Interest expense	-	-	-	-
Securities lending expense	-	-	-	-
Investment earnings	-	-	-	-
Securities lending income	-	-	-	-
Federal indirect cost recoveries	1,665	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	-	-	-	-
Decr (incr) in due from other funds	10	-	1	6
Decr (incr) in due from component units	(5)	-	8	15
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	-	-	-	-
Decr (incr) in other assets	-	-	-	(19)
Incr (decr) in accounts payable	67	4	(1)	15
Incr (decr) in due to other funds	(56)	1	6	(19)
Incr (decr) in due to component units	3	-	-	5
Incr (decr) in deferred revenue	-	-	-	-
Incr (decr) in amounts held in custody for others	-	-	-	-
Incr (decr) in compensated absences payable	(55)	(11)	3	(80)
Incr (decr) in estimated claims	-	-	-	-
Net cash provided by (used for) operating activities	$ (324)	$ 80	$ 28	$ (369)
Schedule of noncash transactions:				
Capital asset acquisitions from capital leases	$ -	$ -	$ -	$ -
Incr (decr) in fair value of investments	-	-	-	-
Total noncash transactions	$ -	$ -	$ -	$ -

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
$ (597)	$ 16	$ 7	$ 28	$ 35	$ (13)	$ 15,666
2	-	-	-	205	4	11,276
-	-	-	-	-	-	654
-	-	-	-	-	-	271
-	-	-	-	-	-	20
-	-	-	-	-	-	(859)
-	-	-	-	-	-	(21)
-	-	-	-	-	-	4,003
-	-	(1)	-	(5)	-	2,099
2	7	(3)	-	9	4	671
-	3	-	-	-	-	75
-	1	-	-	-	-	1
-	-	-	-	87	18	(1,263)
-	-	2	-	-	-	(14)
7	6	(7)	(3)	1	(9)	(1,169)
-	-	(3)	11	(26)	2	(548)
-	-	-	-	-	-	(28)
-	-	(1)	-	(22)	-	(3)
-	-	-	-	-	-	(14)
19	-	4	(1)	4	-	(222)
-	-	-	-	-	-	(4,750)
$ (567)	$ 33	$ (2)	$ 35	$ 288	$ 6	$ 25,845
$ -	$ -	$ -	$ -	$ -	$ -	$ 793
-	-	-	-	-	-	(31)
$ -	$ -	$ -	$ -	$ -	$ -	$ 762

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PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

These funds provide retirement, disability, death, and lump-sum payments to retirement system members. A brief description of each fund follows:

Public Employee Retirement System - Defined Benefit Retirement Plan – This fund provides retirement benefits to substantially all public employees not covered by another public system.

Municipal Police Officers Retirement System – This fund provides retirement benefits to all municipal police officers covered by the plan.

Firefighters Unified Retirement System – This fund provides retirement benefits for firefighters employed by first and second- class cities and other cities that wish to adopt the plan.

Sheriffs Retirement System – This fund provides retirement benefits for sheriffs and State Department of Justice investigators.

Highway Patrol Officers Retirement System – This fund provides retirement benefits for all members of the Montana Highway Patrol.

Judges Retirement System – This fund provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge.

Game Wardens & Peace Officers Retirement System – This fund provides retirement benefits for all persons employed as game wardens, supervisory personnel, and state peace officers.

Volunteer Firefighters Compensation Act – This fund provides medical benefits and pension, disability, and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the State.

Public Employee Retirement System - Defined Contribution Retirement Plan – Members of the defined contribution retirement plan decide how to invest their contributions and a portion of their employer contributions in the available investment options.

Public Employee 457 Plan – All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate in this plan. The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings.

Teachers Retirement System – This fund provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Voluntary Employee Benefit Association – This fund provides members with individual health care expense trust accounts to pay the qualified health care expenses of members and their dependents and beneficiaries.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
JUNE 30, 2005
(expressed in thousands)

	PUBLIC EMPLOYEE RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEE DEFINED BENEFIT	MUNICIPAL POLICE	FIRE-FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ASSETS						
Cash/cash equivalents	$ 59,799	$ 2,251	$ 2,647	$ 3,446	$ 1,983	$ 1,289
Receivables (net):						
Accounts receivable	1,424	85	56	162	-	-
Interest	7,466	355	338	344	190	110
Due from primary government	136	7,705	6,719	-	18	-
Due from other PERB plans	293	-	-	-	-	-
Long-term notes/loans receivable	167	-	-	-	-	-
Total receivables	9,486	8,145	7,113	506	208	110
Investments at fair value:						
Equity in pooled investments	3,115,493	151,479	144,045	147,565	81,601	47,140
Other investments	59,184	-	-	-	-	-
Total investments	3,174,677	151,479	144,045	147,565	81,601	47,140
Securities lending collateral	140,880	7,083	6,725	6,858	3,779	2,191
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	-	-	-	-	-	-
Equipment	5	-	-	-	-	-
Accumulated depreciation	(4)	-	-	-	-	-
Intangible assets	319	4	4	4	3	3
Total capital assets	320	4	4	4	3	3
Other assets	-	-	-	-	-	-
Total assets	3,385,162	168,962	160,534	158,379	87,574	50,733
LIABILITIES						
Accounts payable	440	4	-	-	2	-
Due to primary government	46	-	-	-	-	-
Due to other PERB plans	57	59	49	52	26	7
Due to other funds	-	-	-	-	-	-
Advances from primary government	-	-	-	-	-	-
Advances from other funds	-	-	-	-	-	-
Deferred revenue	55	1	4	-	-	-
Securities lending liability	140,880	7,083	6,725	6,858	3,779	2,191
Compensated absences payable	265	-	-	-	-	-
Total liabilities	141,743	7,147	6,778	6,910	3,807	2,198
NET ASSETS						
Held in trust for pension benefits and other purposes	$ 3,243,419	$ 161,815	$ 153,756	$ 151,469	$ 83,767	$ 48,535

PUBLIC EMPLOYEE RETIREMENT BOARD (PERB)

GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE-FIGHTERS	PUBLIC EMPLOYEE DEFINED CONTRIBUTION	PUBLIC EMPLOYEE 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
$ 3,299	$ 2,041	$ 548	$ 303	$ 31,856	$ 67	$ 109,529
-	-	-	-	15,335	18	17,080
115	46	-	-	5,709	-	14,673
1	-	-	-	153	-	14,732
-	-	57	-	-	-	350
-	-	-	-	-	-	167
116	46	57	-	21,197	18	47,002
48,458	19,552	-	-	2,382,434	-	6,137,767
-	-	24,948	239,143	51,102	494	374,871
48,458	19,552	24,948	239,143	2,433,536	494	6,512,638
2,296	922	-	-	107,021	-	277,755
-	-	-	-	35	-	35
-	-	-	-	158	-	158
-	-	-	-	147	-	152
-	-	-	-	(260)	-	(264)
4	5	4	145	692	-	1,187
4	5	4	145	772	-	1,268
-	-	-	-	3	18	21
54,173	22,566	25,557	239,591	2,594,385	597	6,948,213
12	-	13	166	78	35	750
-	-	31	4	32	-	113
37	43	15	5	-	-	350
-	-	-	-	-	26	26
-	-	1,380	-	-	-	1,380
-	-	-	-	-	181	181
2	-	-	-	-	-	62
2,296	922	-	-	107,021	-	277,755
-	-	9	11	117	1	403
2,347	965	1,448	186	107,248	243	281,020
$ 51,826	$ 21,601	$ 24,109	$ 239,405	$ 2,487,137	$ 354	$ 6,667,193

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	PUBLIC EMPLOYEE RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEE DEFINED BENEFIT	MUNICIPAL POLICE	FIRE-FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ADDITIONS						
Contributions/premiums:						
Employer	$ 60,297	$ 3,791	$ 2,959	$ 2,813	$ 3,324	$ 1,162
Employee	66,914	2,424	2,330	2,975	862	394
Other contributions	647	7,705	6,718	13	669	18
Net investment earnings:						
Investment earnings	249,528	11,917	11,340	11,584	6,467	3,705
Administrative investment expense	(4,778)	(220)	(209)	(214)	(120)	(68)
Securities lending income	3,224	162	155	157	87	50
Securities lending expense	(2,998)	(151)	(144)	(146)	(81)	(47)
Charges for services	-	-	-	-	-	-
Other additions	3	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Total additions	372,837	25,628	23,149	17,182	11,208	5,214
DEDUCTIONS						
Benefits	142,789	11,363	10,386	5,527	5,790	1,624
Refunds	13,678	798	101	633	230	-
Administrative expenses:						
Personal services	1,309	-	-	-	-	-
Contractual services	649	2	-	-	-	-
Supplies/materials	32	1	1	2	-	-
Depreciation	-	-	-	-	-	-
Amortization	256	3	3	3	3	3
Utilities/rent	178	-	-	-	-	-
Communications	117	-	-	-	-	-
Travel	27	-	-	-	-	-
Repair/maintenance	2	-	-	-	-	-
Interest expense	-	-	-	-	-	-
Other operating expenses	-	58	49	53	27	6
Local assistance	-	-	-	-	-	-
Transfers to ORP	159	-	-	-	-	-
Transfers to PERS-DCRP	914	-	-	-	-	-
Total deductions	160,110	12,225	10,540	6,218	6,050	1,633
Change in net assets	212,727	13,403	12,609	10,964	5,158	3,581
Net assets - July 1 - as previously reported	3,030,679	148,411	141,146	140,504	78,609	44,955
Prior period adjustments	13	1	1	1	-	(1)
Net assets - July 1 - as restated	3,030,692	148,412	141,147	140,505	78,609	44,954
Net assets - June 30	$ 3,243,419	$ 161,815	$ 153,756	$ 151,469	$ 83,767	$ 48,535

PUBLIC EMPLOYEE RETIREMENT BOARD (PERB)

GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE-FIGHTERS	PUBLIC EMPLOYEE DEFINED CONTRIBUTION	PUBLIC EMPLOYEE 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
$ 2,054	$ -	$ 1,856	$ 55	$ 57,150	$ 468	$ 135,929
3,015	-	3,184	15,501	52,900	-	150,499
8	1,527	-	-	656	-	17,961
3,761	1,578	1,768	15,727	192,263	11	509,649
(68)	(30)	-	(461)	(3,701)	-	(9,869)
52	22	-	-	2,460	-	6,369
(48)	(20)	-	-	(2,287)	-	(5,922)
-	-	178	167	-	-	345
-	-	192	-	-	-	195
-	-	-	-	-	150	150
8,774	3,077	7,178	30,989	299,441	629	805,306
1,539	1,517	1,873	15,591	161,247	83	359,329
613	-	-	-	4,340	-	20,393
-	-	102	108	770	22	2,311
-	1	293	795	481	62	2,283
1	3	5	5	25	-	75
-	-	-	-	5	-	5
3	-	3	41	85	-	403
-	-	16	14	42	-	250
-	-	3	16	38	-	174
-	-	4	5	13	-	49
-	-	-	-	53	-	55
-	-	44	-	-	7	51
39	42	16	4	49	6	349
-	11	-	-	-	-	11
-	-	-	-	-	-	159
-	-	-	-	-	-	914
2,195	1,574	2,359	16,579	167,148	180	386,811
6,579	1,503	4,819	14,410	132,293	449	418,495
45,246	20,095	19,298	224,749	2,354,844	(95)	6,248,441
1	3	(8)	246	-	-	257
45,247	20,098	19,290	224,995	2,354,844	(95)	6,248,698
$ 51,826	$ 21,601	$ 24,109	$ 239,405	$ 2,487,137	$ 354	$ 6,667,193

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PRIVATE-PURPOSE TRUST FUNDS

Private-purpose trust funds are used to account for assets held by the State in a trustee capacity, where both the trust principal and earnings benefit individuals, private organizations, or other governments. A brief description of each private-purpose trust fund follows:

Escheated Property – This fund accounts for property that has reverted to the State due to the absence of legal claimants or heirs and is held in trust for distribution to these heirs when identified.

Plan 1 Securities – This fund accounts for the unliquidated security bonds held on deposit from self-insured employers. These funds either revert to the employer at a later date or are cashed and assumed by the State to be used on the employee's behalf.

Woodville Highway Replacement – This fund accounts for money paid to the Montana Department of Transportation by the Anaconda Company to provide the government of Butte-Silver Bow with traffic facilities. This money is held on deposit for the city/county government and is distributed to them at their request.

Moore-Sipple Connector – Money is held in trust to ensure the continued operation of the Moore-Sipple Connector. The balance in this fund reverts to the railroad company if the line is in operation until 2010. As the result of a court order, until this date is reached, the interest earnings on this money are provided to Central Montana Rail, Inc. for use in operating the railroad.

Environmental Reclamation – This fund accounts for environmental reclamation bonds held in trust to be either returned to the company upon successful reclamation of mining properties and related impacts or to be used by the State to complete the related reclamation process.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2005
(expressed in thousands)

	ESCHEATED PROPERTY	PLAN 1 SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS			
Cash/cash equivalents	$ 527	$ -	$ 41
Receivables (net):			
Accounts receivable	-	-	-
Total receivables	-	-	-
Other assets	-	4,642	-
Total assets	527	4,642	41
LIABILITIES			
Accounts payable	1	-	-
Total liabilities	1	-	-
NET ASSETS			
Held in trust for other purposes	$ 526	$ 4,642	$ 41

	MOORE-SIPPLE CONNECTOR	ENVIRONMENTAL RECLAMATION	TOTAL
	$ 240	$ 1,673	$ 2,481
	-	8	8
	-	8	8
	-	2,489	7,131
	240	4,170	9,620
	-	17	18
	-	17	18
	$ 240	$ 4,153	$ 9,602

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	ESCHEATED PROPERTY	PLAN 1 SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS			
Net investment earnings:			
Investment earnings	$ 8	$ -	$ 1
Other additions	1,911	1,238	-
Total additions	1,919	1,238	1
DEDUCTIONS			
Distributions	1,781	-	-
Administrative expenses:			
Grants	-	-	-
Total deductions	1,781	-	-
Change in net assets	138	1,238	1
Net assets - July 1 - as previously reported	396	3,404	40
Prior period adjustments	(8)	-	-
Net assets - July 1 - as restated	388	3,404	40
Net assets - June 30	$ 526	$ 4,642	$ 41

MOORE-SIPPLE CONNECTOR	ENVIRONMENTAL RECLAMATION	TOTAL
$ 5	$ 18	$ 32
-	851	4,000
5	869	4,032
-	672	2,453
4	-	4
4	672	2,457
1	197	1,575
239	3,956	8,035
-	-	(8)
239	3,956	8,027
$ 240	$ 4,153	$ 9,602

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AGENCY FUNDS

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments. A brief description of each agency fund follows:

Performance Deposits – This fund accounts for deposits held by the State pending compliance with performance agreements.

Central Payroll – This fund accounts for the accumulation of state employee payroll and withholding by the Department of Administration, pending remittance to employees and other appropriate third parties.

Criminal Offender Restitution – Accounts for restitution payments received from prisoners and disbursed to their victims.

Custodial Accounts – This fund accounts for monies belonging to state institution residents, students of the School for the Deaf and Blind, and participants in the foster children and protective services programs. The fund also accounts for balances held by the Office of the Commissioner of Higher Education for remittance, on behalf of eligible employees of the Montana University System, to the TIAA-CREF (Teachers Insurance and Annuity Association-College Retirement Equities Fund) retirement fund. This fund also accounts for wages collected from employers on behalf of employee wage complaints filed under authority of the Montana Wages and Wage Protection Act.

Child Support Collections – This fund accounts for payments from parents under the Child Support Enforcement Program administered by the Department of Public Health and Human Services.

Uncleared Collections – This fund accounts for resources held pending distribution to other funds and local governments. The balances in this fund related to other fund types are distributed to those funds each fiscal year-end. Balances remaining relate to external parties.

Intergovernmental – This fund accounts for resources that flow through state agencies to federal and local governments.

Debt Collection – This fund accounts for amounts due to the State which have been written off as uncollectible by the receiving agency. The Department of Revenue continues to attempt to collect amounts owing for a period of time after they are deemed uncollectible by the receiving agency.

Milk Passthrough – This fund accounts for the distribution of the proceeds from the sale of pooled milk.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30, 2005
(expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS
ASSETS				
Cash/cash equivalents	$ 5,620	$ 315	$ 257	$ 1,019
Receivables (net):				
Accounts receivable	-	1	345	-
Total receivables	-	1	345	-
Other assets	12,201	-	-	-
Total assets	17,821	316	602	1,019
LIABILITIES				
Accounts payable	44	-	347	4
Amounts held in custody for others	17,777	316	255	1,015
Total liabilities	17,821	316	602	1,019

CHILD SUPPORT COLLECTIONS	UNCLEARED COLLECTIONS	INTER-GOVERNMENTAL	DEBT COLLECTION	MILK PASS-THROUGH	TOTAL
$ 552	$ 162	$ 168	$ 111	$ 54	$ 8,258
300	-	-	13	-	659
300	-	-	13	-	659
-	-	-	-	-	12,201
852	162	168	124	54	21,118
106	156	104	1	50	812
746	6	64	123	4	20,306
852	162	168	124	54	21,118

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

FUND	BALANCE JUNE 30, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	$ 5,436	$ 189,411	$ 189,227	$ 5,620
Receivables (net)	-	7,695	7,695	-
Investments	-	3	3	-
Other assets	11,672	616	87	12,201
Total assets	$ 17,108	$ 197,725	$ 197,012	$ 17,821
LIABILITIES				
Accounts payable	$ 27	$ 20,039	$ 20,022	$ 44
Amounts held in custody for others	17,081	61,297	60,601	17,777
Other liabilities	-	72,153	72,153	-
Total liabilities	$ 17,108	$ 153,489	$ 152,776	$ 17,821
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	$ 248	$ 603,740	$ 603,673	$ 315
Receivables (net)	1	-	-	1
Total assets	$ 249	$ 603,740	$ 603,673	$ 316
LIABILITIES				
Accounts payable	$ 10	$ 10,566	$ 10,576	$ -
Amounts held in custody for others	239	603,739	603,662	316
Total liabilities	$ 249	$ 614,305	$ 614,238	$ 316
CRIMINAL OFFENDER RESTITUTION:				
ASSETS				
Cash/cash equivalents	$ 146	$ 115	$ 4	$ 257
Receivables (net)	413	1	69	345
Total assets	$ 559	$ 116	$ 73	$ 602
LIABILITIES				
Accounts payable	$ 415	1	69	347
Amounts held in custody for others	144	4,832	4,721	255
Total liabilities	$ 559	$ 4,833	$ 4,790	$ 602
CUSTODIAL ACCOUNTS:				
ASSETS				
Cash/cash equivalents	$ 1,207	$ 4,362	$ 4,550	$ 1,019
Receivables (net)	-	1	1	-
Total assets	$ 1,207	$ 4,363	$ 4,551	$ 1,019
LIABILITIES				
Accounts payable	$ 9	$ 707	$ 712	$ 4
Amounts held in custody for others	1,198	7,377	7,560	1,015
Total liabilities	$ 1,207	$ 8,084	$ 8,272	$ 1,019

(Continued on Next Page)

FUND	BALANCE JUNE 30, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
CHILD SUPPORT COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 993	$ 69,214	$ 69,655	$ 552
Receivables (net)	292	11	3	300
Total assets	$ 1,285	$ 69,225	$ 69,658	$ 852
LIABILITIES				
Accounts payable	$ 457	$ 39,413	$ 39,764	$ 106
Amounts held in custody for others	828	69,196	69,278	746
Total liabilities	$ 1,285	$ 108,609	$ 109,042	$ 852
UNCLEARED COLLECTIONS:				
ASSETS				
Cash/cash equivalents	$ 91	$ 10,992,885	$ 10,992,814	$ 162
Receivables (net)	-	68,643	68,643	-
Investments	-	19	19	-
Other assets	-	3	3	-
Total assets	$ 91	$ 11,061,550	$ 11,061,479	$ 162
LIABILITIES				
Accounts payable	$ 91	$ 1,370	$ 1,305	$ 156
Due to other governments	-	3,518	3,518	-
Amounts held in custody for others	-	708	702	6
Other liabilities	-	551,661	551,661	-
Total liabilities	$ 91	$ 557,257	$ 557,186	$ 162
INTERGOVERNMENTAL:				
ASSETS				
Cash/cash equivalents	$ 973	$ 419,887	$ 420,692	$ 168
Receivables (net)	-	63	63	-
Total assets	$ 973	$ 419,950	$ 420,755	$ 168
LIABILITIES				
Accounts payable	$ 101	$ 2,701	$ 2,698	$ 104
Due to other governments	-	3	3	-
Amounts held in custody for others	872	9,628	10,436	64
Other liabilities	-	2	2	-
Total liabilities	$ 973	$ 12,334	$ 13,139	$ 168

(Continued on Next Page)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - Continued
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

FUND	BALANCE JUNE 30, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
DEBT COLLECTION:				
ASSETS				
Cash/cash equivalents	$ 123	$ 2,339	$ 2,351	$ 111
Receivables (net)	13	2	2	13
Total assets	$ 136	$ 2,341	$ 2,353	$ 124
LIABILITIES				
Accounts payable	$ 17	$ 2,626	$ 2,642	$ 1
Amounts held in custody for others	119	1,847	1,843	123
Other liabilities	-	154	154	-
Total liabilities	$ 136	$ 4,627	$ 4,639	$ 124
MILK PASSTHROUGH:				
ASSETS				
Cash/cash equivalents	$ 58	$ 1,627	$ 1,631	$ 54
Total assets	$ 58	$ 1,627	$ 1,631	$ 54
LIABILITIES				
Accounts payable	$ -	$ 1,681	$ 1,631	$ 50
Amounts held in custody for others	58	2,651	2,705	4
Total liabilities	$ 58	$ 4,332	$ 4,336	$ 54
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash/cash equivalents	$ 9,275	$ 12,283,580	$ 12,284,597	$ 8,258
Receivables (net)	719	76,416	76,476	659
Investments	-	19	19	-
Other assets	11,672	619	90	12,201
Total assets	$ 21,666	$ 12,360,634	$ 12,361,182	$ 21,118
LIABILITIES				
Accounts payable	$ 1,127	$ 79,104	$ 79,419	$ 812
Due to other governments	-	3,518	3,518	-
Amounts held in custody for others	20,539	761,275	761,508	20,306
Other liabilities	-	623,970	623,970	-
Total liabilities	$ 21,666	$ 1,467,867	$ 1,468,415	$ 21,118

State of Montana

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2005

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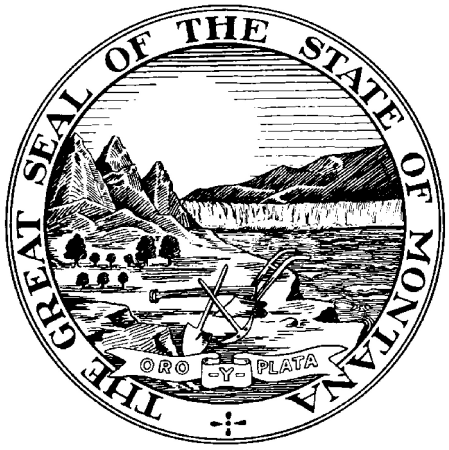
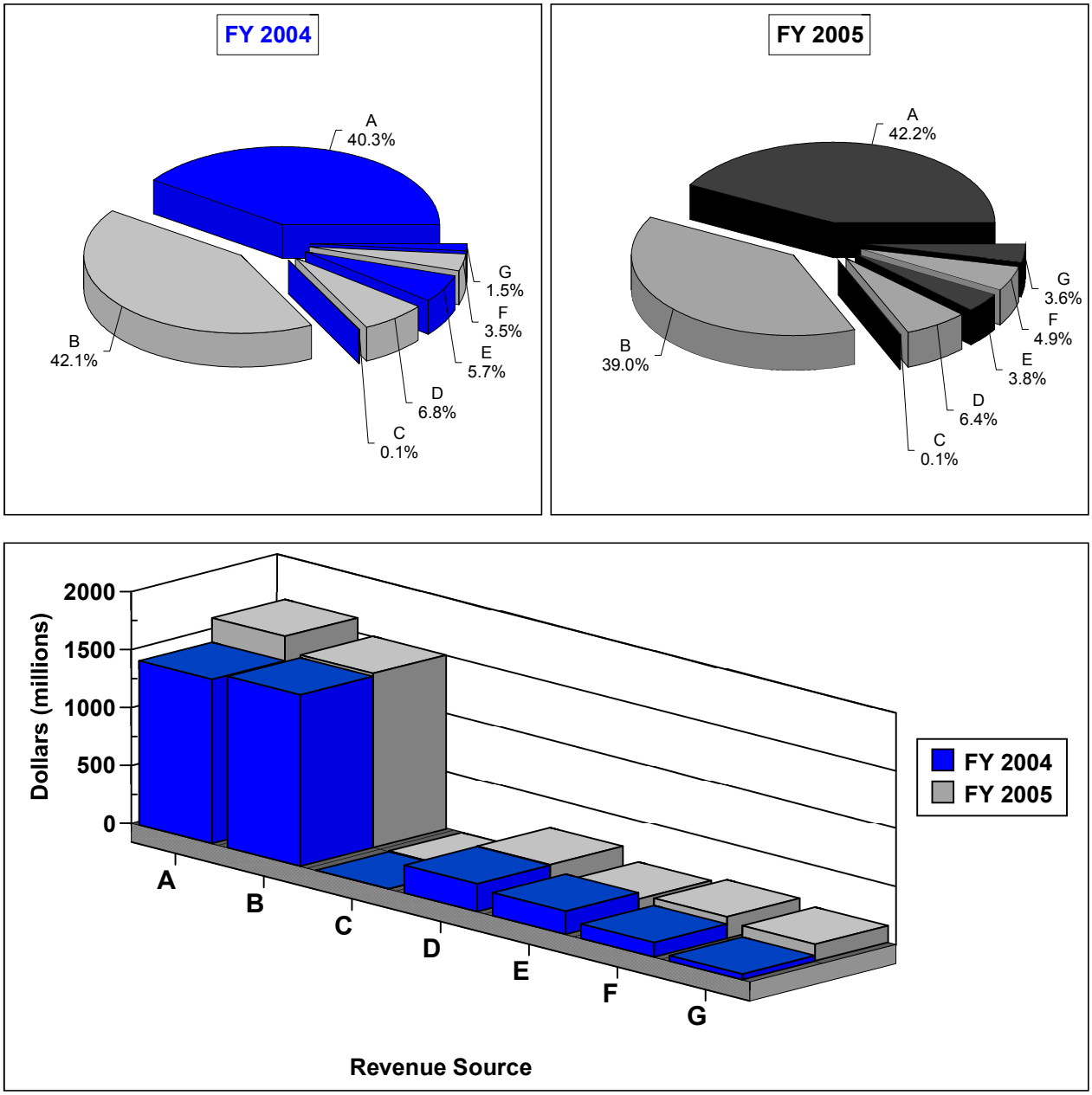
STATISTICAL SECTION



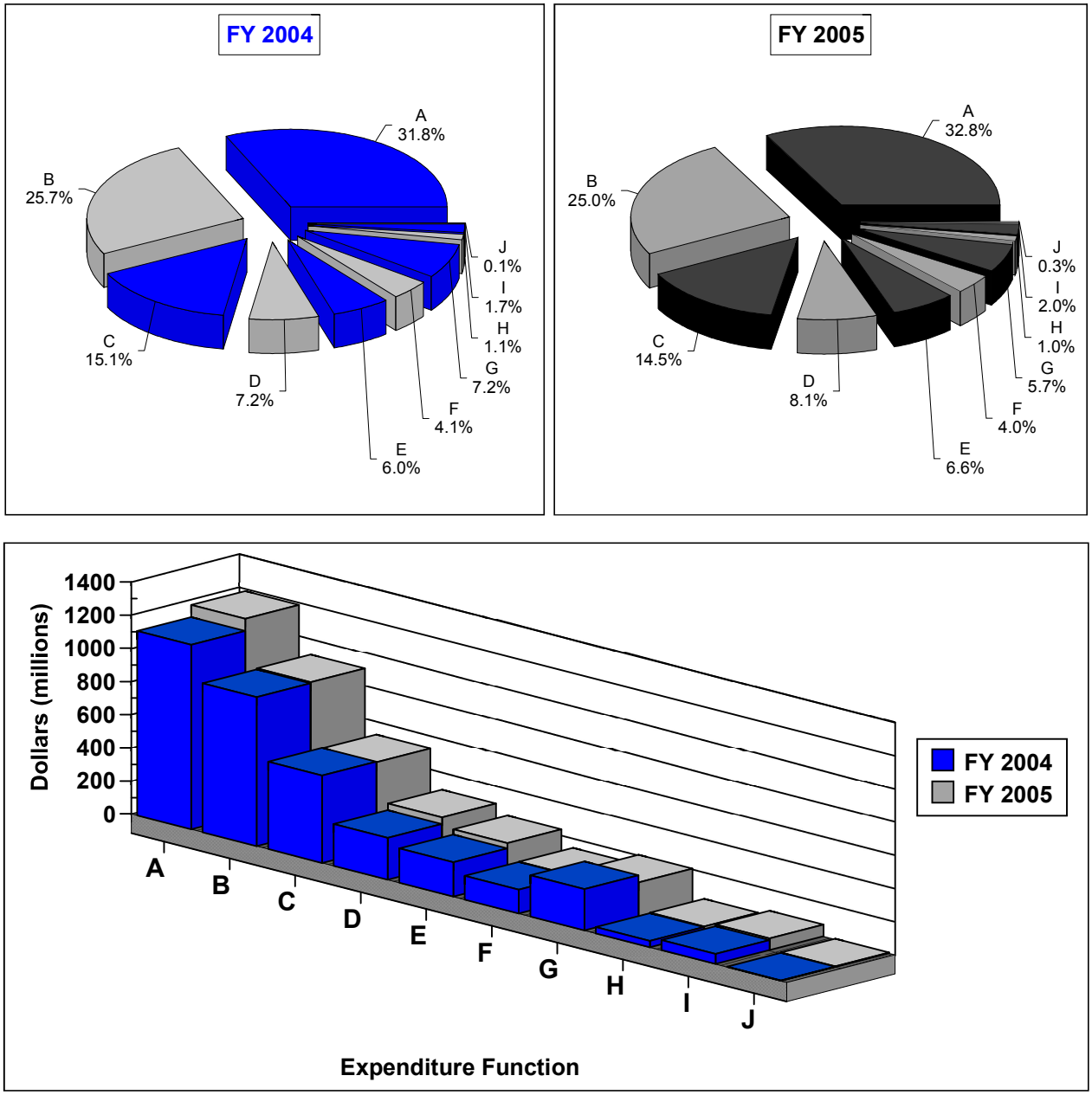
Revenues by Source
All Governmental Fund Types



Legend:

(A) Taxes
(B) Federal
(C) Securities Lending Income
(D) Licenses/Permits
(E) Charges for Services/Fines/Forfeits
(F) Other Revenues (includes contributions, premiums, rentals, leases, royalties, grants, contracts, donations, federal indirect cost recoveries and sale of documents, merchandise and property)
(G) Investment Earnings

Expenditures by Function
All Governmental Fund Types



Legend:

(A) Health/Social Services
(B) Educational/Cultural
(C) Transportation
(D) General Government
(E) Public Safety/Corrections
(F) Economic Development/Assistance
(G) Resource/Recreation/Environment
(H) Debt Service
(I) Capital Outlay
(J) Securities Lending

REVENUES BY SOURCE
ALL GOVERNMENTAL FUND TYPES
For the Last Ten Fiscal Years
(expressed in thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Licenses/permits	$ 110,043	$ 112,761	$ 116,706	$ 117,950	$ 125,782	$ 126,438	$ 202,490	$ 210,611	$ 240,612	$ 245,244
Taxes	997,874	1,041,840	1,120,907	1,191,607	1,244,622	1,333,697	1,229,613	1,250,181	1,416,392	1,627,858
Chg srv/fines/forfeits/settle	66,367	93,629	128,298	150,176	302,022	165,999	172,326	157,939	200,590	145,235
Investment earnings	28,594	28,741	33,370	33,569	37,780	64,425	145,984	204,406	49,363	143,937
Securities lending income	-	8,346	6,737	6,841	4,991	2,717	4,458	1,950	2,032	5,169
Sales doc/merch/property	6,776	5,828	8,211	6,884	9,658	7,938	15,571	13,104	18,022	22,655
Rentals/leases/royalties	220	212	210	420	487	587	24,438	28,324	31,687	43,723
Contributions/premiums	4,165	4,211	4,414	4,451	5,301	6,142	6,094	6,933	7,608	7,744
Grants/contracts/donations	9,232	7,759	10,813	12,306	13,961	17,170	20,864	24,560	22,868	27,984
Federal	880,300	853,051	903,877	970,943	1,078,455	1,206,522	1,339,851	1,454,165	1,480,812	1,502,939
Federal indir cost recvy	1,685	1,937	1,916	1,922	2,091	1,958	2,761	33,883	37,822	81,050
Other revenues	1,552	972	1,491	5,230	2,646	2,685	4,459	24,044	6,412	4,340
Total revenues	$2,106,808	$2,159,287	$2,336,950	$2,502,299	$2,827,796	$2,936,278	$3,168,909	$3,410,100	$3,514,220	$3,857,878

Source: Statewide Accounting, Budgeting, and Human Resource System

EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
For the Last Ten Fiscal Years
(expressed in thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General government	$ 71,699	$ 81,646	$ 125,612	$ 135,083	$ 154,332	$ 226,764	$ 228,772	$ 239,707	$ 252,486	$ 293,808
Public safety/corrections	119,221	128,247	177,320	186,840	203,793	214,407	189,507	189,302	208,593	238,929
Transportation	322,142	325,182	332,626	381,684	442,211	416,837	440,172	510,866	529,555	523,022
Health/social services	770,506	788,429	811,041	837,669	889,480	990,989	1,079,303	1,018,333	1,114,064	1,186,462
Education/cultural	551,604	555,610	594,972	590,859	622,105	657,034	861,034	894,591	898,988	905,150
Resource/recreation/environ	69,264	92,972	90,229	98,417	87,143	147,371	111,388	184,359	250,590	206,903
Economic dev/assistance	106,792	105,752	110,439	120,476	123,903	133,280	163,895	168,007	144,381	146,306
Debt service:										
Principal retirement	42,921	24,027	25,398	37,074	31,961	34,161	36,758	39,002	25,217	27,203
Interest/fiscal charges	18,039	15,010	18,483	21,227	17,380	17,937	19,780	18,166	14,812	14,171
Capital outlay	57,020	70,182	68,714	74,007	76,386	72,375	65,056	63,073	60,310	70,851
Securities lending	-	7,887	6,542	6,477	4,795	2,629	3,936	1,734	1,784	4,905
Total expenditures	$2,129,208	$2,194,944	$2,361,376	$2,489,813	$2,653,489	$2,913,784	$3,199,601	$3,327,140	$3,500,780	$3,617,710

Source: Statewide Accounting, Budgeting, and Human Resource System

PROPERTY TAX LEVIES AND COLLECTIONS (1)
For the Last Ten Fiscal Years
(expressed in thousands)

Fiscal Year	Total Tax Levy (a)	Total Tax Collections (b)	Percent of Total Tax Collections to Tax Levy
1996	$193,423	$218,398	112.9%
1997	195,993	222,858	113.7
1998	200,432	216,204	107.9
1999	201,789	216,593	107.3
2000	201,300	215,368	107.0
2001	177,052	200,393	113.2
2002	172,733	180,370	104.4
2003	174,884	181,944	104.0
2004	176,177	176,450	100.2
2005	181,398	180,607	99.6

Note: (1) Property taxes are levied in one fiscal year and collected in subsequent fiscal years (i.e., the fiscal year column relates to the column "Total Tax Collections" only).

Source: (a) Montana Department of Revenue Biennial Report to the Legislature
(b) Statewide Accounting, Budgeting, and Human Resource System

TAXABLE AND MARKET (ASSESSED) VALUE OF PROPERTY (1)
For the Last Ten Tax Years
(expressed in thousands)

	Real Property		Personal Property		Total		Ratio of Total Taxable to Total Market (Assessed) Value
Tax Year	Taxable Value	Assessed Value	Taxable Value	Assessed Value	Taxable Value	Assessed Value	
1995	$1,512,074	$31,712,386	$326,263	$4,674,861	$1,838,337	$36,387,247	5.1%
1996	1,567,119	32,929,317	300,500	4,791,337	1,867,619	37,720,654	5.0
1997	1,637,694	34,402,312	277,587	4,784,840	1,915,281	39,187,152	4.9
1998	1,680,207	35,543,519	261,813	5,018,523	1,942,020	40,562,042	4.8
1999	1,631,973	35,199,114	267,100	5,216,726	1,899,073	40,415,840	4.7
2000	1,516,441	37,078,015	163,299	5,354,446	1,679,740	42,432,461	4.0
2001	1,534,067	38,785,826	164,136	5,481,442	1,698,203	44,267,268	3.8
2002	1,566,865	41,236,049	151,788	5,252,502	1,718,653	46,488,551	3.7
2003	1,591,677	42,526,190	141,997	4,512,300	1,733,674	47,038,490	3.7
2004	1,637,658	44,906,536	142,271	4,544,326	1,779,929	49,450,862	3.6

Note: (1) Taxable property in Montana must be assessed at 100% of its market value except for mining property and agricultural lands. Mining property is assessed based on net and gross proceeds from mineral production. The assessment on agricultural land is based on productive capacity.

The mill levy is applied against taxable value. Taxable value is calculated by using a designated percentage in Montana's Classification Act of the assessed value (e.g., the taxable value of residential property is 3.3% of assessed value for tax year 2004).

The decrease in tax year 2000 taxable value of real and personal property was due to a 50 percent reduction in the business equipment tax rate.

Effective with the fiscal year 2005 CAFR, the data reported is obtained from the Department of Revenue's Biennial Report to the Legislature.

Source: Montana Department of Revenue Biennial Report to the Legislature

PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS (1)
For the Last Ten Tax Years
(per $100 of taxable value)

Tax Year	State of Montana Special Revenue Funds	Schools	Counties	Cities	Miscellaneous	Total
1995	10.52	15.27	7.02	2.88	4.54	40.23
1996	10.49	15.99	7.33	3.03	4.65	41.49
1997	10.46	16.31	7.32	3.01	4.70	41.80
1998	10.39	16.57	7.29	3.10	4.91	42.26
1999	10.59	17.59	7.95	3.40	4.94	44.47
2000	10.43	18.16	8.84	3.82	5.56	46.81
2001	10.17	19.57	9.99	3.92	6.10	49.75
2002	10.18	21.80	10.60	4.23	6.13	52.94
2003	10.15	23.29	11.29	4.51	6.62	55.86
2004	10.19	22.97	11.72	4.74	7.36	56.98

Note: (1) Effective with tax year 1999, special improvement district property tax rates are reported in the miscellaneous Biennial Report to the Legislature. category; previously they had been reported in the cities category. Data for prior fiscal years have been adjusted.

Source: Montana Department of Revenue Biennial Report to the Legislature

PROPERTY TAX MILL LEVY FOR STATE PURPOSES
For the Last Ten Tax Years

This portion of the property tax levy was developed to provide a nondiscriminatory method of financing public education in Montana. The State has statutory authority to levy up to six mills for the support of the State's higher education system. The General Fund is responsible for making up any deficiencies in the equalization system. In addition, the Legislature is directed by law to levy at each legislative session a tax of up to two mills on all taxable property in the State to provide for any deficiencies in the General Fund.

Tax Year	Higher Education System	Colleges of Technology (1)	Primary & Secondary Schools	Total Mill Levy
1995	6.00	1.50	95.00	102.50
1996	6.00	1.50	95.00	102.50
1997	6.00	1.50	95.00	102.50
1998	6.00	1.50	95.00	102.50
1999	6.00	1.50	95.00	102.50
2000	6.00	1.50	95.00	102.50
2001	6.00	1.50	95.00	102.50
2002	6.00	1.50	95.00	102.50
2003	6.00	1.50	95.00	102.50
2004	6.00	1.50	95.00	102.50

Each mill represents one dollar of tax levied on each thousand dollars worth of taxable property. The amount of property taxes needed for the year (net levy) is divided by the percentage determined collectible. This gross levy is then divided by the assessed valuation to arrive at the mill levy.

Note: (1) The Colleges of Technology mill levy is only assessed in counties where colleges are located.

Effective with the fiscal year 2005 CAFR, the data reported is obtained from the Department of Revenue's Biennial Report to the Legislature

Source: Montana Department of Revenue Biennial Report to the Legislature

RATIO OF DIRECT STATE DEBT TO ASSESSED VALUE AND DIRECT STATE DEBT PER CAPITA
For the Last Ten Fiscal Years

	(Expressed in Thousands)			Direct State Debt Per	
Fiscal Year	Population (1) (a)	Assessed Value (2) (b)	Direct State Debt (3)	Assessed Value	Capita
1995	877	$36,387,247	$78,000	0.21%	$ 88.94
1996	886	37,720,655	69,620	0.18	78.58
1997	890	39,187,152	96,620	0.25	108.56
1998	892	40,562,042	187,005	0.46	209.65
1999	898	40,415,840	197,020	0.49	219.40
2000	902	42,432,461	228,269	0.54	253.07
2001	906	44,267,269	236,732	0.53	261.29
2002	910	46,488,552	214,135	0.46	235.31
2003	918	47,038,490	227,625	0.48	250.14
2004	927	49,450,862	219,645	0.44	239.26

Note: (1) Numbers include revisions made by the U.S. Department of Commerce, Bureau of Economic Analysis.
(2) Based on tax year. Effective with the fiscal year 2005 CAFR, the data reported is obtained from the Department of Revenue's Biennial Report to the Legislature.
(3) Includes only General Obligation Bonds.

Source: (a) U.S. Department of Commerce, Bureau of Economic Analysis
(b) Montana Department of Revenue Biennial Report to the Legislature

RATIO OF ANNUAL DEBT SERVICE TO TOTAL GENERAL EXPENDITURES
For the Last Ten Fiscal Years
(expressed in thousands)

Fiscal Year	Debt Service	General Expenditures	Ratio
1996	$60,960	$2,129,208	2.86%
1997	39,037	2,194,943	1.78
1998	43,881	2,361,376	1.86
1999	58,301	2,489,813	2.34
2000	49,341	2,653,489	1.86
2001	52,098	2,913,784	1.79
2002	56,538	3,199,601	1.77
2003	57,168	3,327,140	1.72
2004	40,029	3,500,780	1.14
2005	41,374	3,617,710	1.14

Source: Montana Financial Reports 1996-2005

REVENUE BOND COVERAGE
HIGHER EDUCATION
For the Last Ten Fiscal Years
(expressed in thousands)

Fiscal Year	Gross Revenues	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements	
				Total	Coverage
1995	$51,592	$35,450	$16,142	$ 7,865	2.05
1996	50,315	37,357	12,958	8,931	1.45
1997	64,260	39,016	25,244	12,675	1.99
1998	69,054	41,011	28,043	13,573	2.07
1999	75,589	41,351	34,238	16,897	2.03
2000	76,095	44,457	31,638	16,692	1.90
2001	78,732	46,540	32,192	16,784	1.92
2002	81,531	50,426	31,105	17,302	1.80
2003	87,238	53,263	33,975	17,287	1.97
2004	91,336	56,744	34,592	17,452	1.98

Source: Annual audit reports for each Higher Education Unit

REVENUE BOND COVERAGE
HOUSING AUTHORITY
For the Last Ten Fiscal Years
(expressed in thousands)

Fiscal Year	Gross Revenues	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements	
				Total	Coverage
1996	$39,504	$2,414	$37,090	$32,379	1.15
1997	39,926	2,572	37,354	32,814	1.14
1998	44,782	2,754	42,028	34,100	1.23
1999	40,858	2,985	37,873	35,167	1.08
2000	44,875	3,420	41,455	36,581	1.13
2001	53,461	3,663	49,798	41,430	1.20
2002	53,157	4,070	49,087	42,275	1.16
2003	53,081	4,114	48,967	41,206	1.19
2004	42,780	4,059	38,721	36,898	1.05
2005	48,451	4,583	43,868	37,837	1.16

Source: Statewide Accounting, Budgeting, and Human Resource System

REVENUE BOND COVERAGE
ECONOMIC DEVELOPMENT BONDS
For the Last Ten Fiscal Years
(expressed in thousands)

Fiscal Year	Gross Revenues	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements	
				Total	Coverage
1996	$3,323	$195	$3,128	$2,860	1.09
1997	3,064	174	2,890	2,477	1.17
1998	3,595	203	3,392	2,953	1.15
1999	3,927	221	3,706	2,883	1.29
2000	4,229	326	3,903	3,183	1.23
2001	4,814	469	4,345	3,871	1.12
2002	3,481	330	3,151	2,919	1.08
2003	2,954	327	2,627	2,097	1.25
2004	2,252	303	1,949	1,892	1.03
2005	2,768	368	2,400	2,258	1.06

Source: Statewide Accounting, Budgeting, and Human Resource System

CONSTRUCTION AND BANK DEPOSITS
For the Last Ten Calendar Years
(expressed in thousands, except for number of permits)

	Construction (1) (a) Residential		
Calendar Year	Number of Permits Issued	Valuation (2)	Bank Deposits (3) (b)
1995	7,396	$224,309	$9,056,329
1996	7,197	209,238	9,586,233
1997	6,622	204,551	10,024,966
1998	6,745	N/A	10,618,040
1999	7,402	N/A	11,025,460
2000	6,532	N/A	11,548,844
2001	6,904	N/A	12,565,827
2002	7,493	N/A	13,419,519
2003	7,879	N/A	14,707,968
2004	4,975	N/A	14,201,689

Note: (1) Numbers include revisions made by the U.S. Department of Commerce, Bureau of Economic Analysis for prior years shown. Construction data is reported on a calendar year basis.
(2) N/A - Data not available: no longer gathered and reported due to budget constraints.
(3) Bank deposits are the aggregate of State Banks and Trust Companies, National Banks, Savings and Loans, and Credit Unions.

Source: (a) U.S. Department of Commerce - Bureau of the Census
(b) Montana Department of Commerce - State Banks and Trust Companies, National Banks, and Credit Unions
Federal Deposit Insurance Corporation and the Office of Thrift Supervision

PROPERTY (ASSESSED) VALUES (1) (3)
For the Last Ten Tax Years
(expressed in thousands)

Tax Year	Agriculture	Commercial/ Industrial	Personal/ Real	Utilities	Other (2)	Total
1995	$4,414,591	$5,830,273	$20,944,164	$4,886,362	$311,857	$36,387,247
1996	4,523,548	6,032,812	21,541,079	5,212,178	411,037	37,720,654
1997	4,546,414	6,306,477	22,436,871	5,589,074	308,316	39,187,152
1998	4,573,340	6,593,141	23,382,144	5,713,097	300,320	40,562,042
1999	4,873,002	6,651,311	22,767,150	5,821,297	303,080	40,415,840
2000	5,197,931	7,022,437	23,712,872	6,212,009	287,212	42,432,461
2001	5,524,241	7,465,295	24,867,646	6,035,077	375,009	44,267,268
2002	5,865,070	7,941,480	26,241,641	6,076,025	364,335	46,488,551
2003	5,851,977	8,175,769	26,802,148	5,907,601	300,996	47,038,491
2004	5,951,107	8,746,132	28,442,312	5,955,669	355,642	49,450,862

Note: (1) Nontaxable property value information is not available.
(2) Other property includes mining and miscellaneous.
(3) Effective with the fiscal year 2005 CAFR, the data reported is obtained from the Department of Revenue's Biennial Report to the Legislature.

Source: Montana Department of Revenue Biennial Report to the Legislature

INCOME DATA
For the Last Ten Calendar Years

Total Personal Income (1)
(Millions)

	Montana		Rocky Mountain Region (2)		United States	
Year	Amount	Percent Increase	Amount	Percent Increase	Amount	Percent Increase
1995	$16,297		$179,684		$6,192,235	
1996	16,992	4.3%	192,141	6.9%	6,538,103	5.6%
1997	17,726	4.3	206,847	7.7	6,928,545	6.0
1998	18,942	6.9	223,322	8.0	7,418,497	7.1
1999	19,405	2.4	238,547	6.8	7,779,521	4.9
2000	20,744	6.9	261,286	9.5	8,398,871	8.0
2001	22,281	7.4	279,475	7.0	8,718,165	3.8
2002	22,526	1.1	283,224	1.3	8,868,261	1.7
2003	23,651	5.0	291,133	2.8	9,148,680	3.2
2004	25,643	8.4	310,888	6.8	9,702,525	6.1
Average Annual Rate of Growth		5.2%		6.3%		5.2%

Per Capita Income (1)

	Montana		Rocky Mountain Region (2)		United States	
Year	Amount	Percent Increase	Amount	Percent Increase	Amount	Percent Increase
1995	$18,592		$ 21,442		$23,255	
1996	19,173	3.1%	22,432	4.6%	24,270	4.4%
1997	19,920	3.9	23,651	5.4	25,412	4.7
1998	21,225	6.6	25,041	5.9	26,893	5.8
1999	21,621	1.9	26,230	4.7	27,880	3.7
2000	22,961	6.2	28,194	7.5	29,760	6.7
2001	24,594	7.1	29,639	5.1	30,580	2.8
2002	24,744	0.6	29,588	-0.2	30,765	0.7
2003	25,775	4.2	30,053	1.6	31,459	2.2
2004	27,666	7.3	31,668	5.4	33,041	5.0
Average Annual Rate of Growth		4.5%		4.4%		4.0%

Note: (1) Numbers include revisions made by the U.S. Department of Commerce, Bureau of Economic Analysis for prior years.
(2) The Rocky Mountain Region includes Montana, Colorado, Idaho, Utah, and Wyoming. United States includes the 50 states and the District of Columbia.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

PUBLIC EDUCATION ENROLLMENT (1)
For the Last Ten School Years

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
TOTAL GRADES PRE-K-12 (a)	165,547	164,592	162,319	159,988	157,556	154,875	151,947	149,995	148,356	146,705
MONTANA UNIVERSITY SYSTEM (b)										
The University of Montana - Missoula	9,910	10,269	10,451	10,538	10,514	10,573	10,830	10,933	11,119	11,031
Montana State University - Bozeman	10,285	10,349	10,209	10,374	10,402	10,411	11,100	10,675	10,665	10,528
Montana Tech of The University of Montana	1,679	1,718	1,656	1,642	1,683	1,659	1,608	1,752	1,797	1,692
The University of Montana - Western	1,082	1,031	1,032	970	1,009	1,028	1,014	996	1,006	1,069
Montana State University -Billings	3,276	3,221	3,401	3,337	3,371	3,364	3,779	3,382	3,503	3,484
Montana State University - Northern	1,495	1,501	1,490	1,515	1,451	1,418	1,489	1,446	1,431	1,318
TOTAL UNIVERSITIES	27,727	28,089	28,239	28,376	28,430	28,453	29,820	29,184	29,521	29,122
COLLEGES OF TECHNOLOGY (b)										
MSU - College of Technology - Billings	436	462	472	507	510	474	511	580	666	668
MT Tech College of Technology of the U of M	329	363	354	334	310	285	295	232	260	280
MSU - College of Technology - Great Falls	727	714	705	745	766	834	952	1,053	1,098	1,093
The U of M - College of Technology - Helena	468	543	663	664	704	724	736	738	749	684
Missoula College of Technology of The U of M	629	749	794	766	776	797	802	886	895	916
TOTAL COLLEGES OF TECHNOLOGY	2,589	2,831	2,988	3,016	3,066	3,114	3,296	3,489	3,668	3,641

Note: (1) The University System and Colleges of Technology enrollment is based on fiscal full-time equivalent enrollment.

Source: (a) Montana Office of Public Instruction
(b) Montana Commissioner of Higher Education

DEMOGRAPHIC STATISTICS
For the Last Ten Fiscal Years

Fiscal Year	Population (1) (3) (a)	Per Capita Income (1) (3) (a)	Public School Enrollment Pre-K-12 (2) (b)	Montana University System Enrollment (2) (b)	Average Montana Unemploy-ment Rate (c)	Average U.S. Unemploy-ment Rate (c)	Average Civilian Labor Force (c)	Average Total Employ-ment (c)	Average Unemploy-ment (c)
1996	886,000	$19,173	165,547	30,316	5.3%	5.3%	456,600	432,900	23,700
1997	890,000	19,920	164,592	30,920	5.0	5.0	465,200	442,600	22,600
1998	892,000	21,225	162,319	31,227	5.4	4.5	470,500	445,800	24,700
1999	898,000	21,621	159,988	31,392	4.9	4.3	478,700	455,900	22,800
2000	902,000	22,961	157,556	31,496	4.8	4.0	488,000	466,000	22,000
2001	906,000	24,594	154,875	31,567	4.3	4.5	481,500	462,000	19,500
2002	910,000	24,744	151,947	33,116	4.6	5.9	480,000	459,800	20,300
2003	918,000	25,775	149,995	32,673	4.7	6.4	484,100	463,100	21,000
2004	926,865	27,666	148,356	33,189	4.8	5.6	489,200	466,600	22,600
2005	N/A	N/A	146,705	32,763	4.4	5.0	500,000	477,900	22,100

N/A - Data not available

Note: (1) Based on calendar year.
(2) Based on academic year - includes public schools (pre-K-12) and State-owned universities and colleges.
(3) Numbers include revisions made by U.S. Department of Commerce, Bureau of Economic Analysis for prior years.

Source: (a) U.S. Department of Commerce, Bureau of Economic Analysis
(b) Montana Office of Public Instruction, Public Schools,
Montana Commissioner of Higher Education, Universities and Colleges
(c) Montana Department of Labor and Industry, Research Bureau

ANNUAL AVERAGE NONAGRICULTURAL EMPLOYMENT
BY SELECTED INDUSTRIES (1)
For the Last Ten Calendar Years (Not Seasonally Adjusted)
(thousands of persons)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Natural Resources & Mining	6.4	6.4	6.3	6.1	6.1	6.0	6.2	6.2	6.2	7.2
Construction	16.4	17.6	18.3	19.3	20.0	20.4	21.2	21.7	23.1	24.9
Durable Goods	13.8	14.3	14.4	14.6	15.1	15.2	14.4	13.1	12.1	12.0
Non-Durable Goods	7.4	7.6	7.7	7.4	7.4	7.2	7.0	6.9	6.9	7.1
Wholesale Trade	15.0	15.1	15.3	15.6	15.8	15.6	15.4	15.3	15.4	15.8
Retail Trade	49.7	51.2	51.6	52.8	53.2	53.8	53.5	53.6	53.7	54.9
Transportation & Utilities	16.7	16.4	16.4	16.7	16.8	16.8	16.2	15.9	15.4	15.4
Information	6.5	6.7	7.1	7.4	7.8	7.9	7.9	7.8	7.7	7.8
Financial Activities	16.1	16.6	17.1	17.6	18.1	18.5	18.8	19.3	20.3	21.1
Professional & Business Srvs	23.3	25.3	25.7	26.7	28.6	30.8	31.8	32.3	32.5	33.2
Educational & Health Services	42.6	44.0	44.9	46.1	47.7	49.0	49.7	52.0	53.1	54.2
Leisure & Hospitality	46.0	47.8	47.9	48.7	49.1	50.1	49.4	51.0	52.3	54.6
Other Services	13.3	13.9	14.2	14.7	15.1	15.3	16.0	16.1	16.3	17.0
Federal Government	13.2	12.8	12.6	12.7	12.7	13.4	13.4	13.8	13.8	13.8
State Government	22.3	22.7	23.1	23.4	23.8	24.2	23.9	24.3	24.7	25.1
Local Government	41.2	41.3	41.6	42.3	42.2	42.6	46.8	46.8	47.3	48.1
Total Employment	349.9	359.7	364.2	372.1	379.5	386.8	391.6	396.1	400.8	412.2

Note: (1) Effective in 2002, industry categories have been changed due to reporting changes implemented by the U.S. Department of Labor. Data for prior years has been revised.

Source: U.S. Department of Labor, Bureau of Labor Statistics

MAJOR PRIVATE EMPLOYERS IN MONTANA (1)
(listed alphabetically)

(1) Wal-Mart Stores Incorporated (retail trade services)
(2) Deaconess Billings Clinic (hospital/other health services)
(3) Albertsons (retail trade services)
(4) St. Vincent Healthcare (hospital/other health services)
(5) Town Pump (retail trade services)
(6) Benefis Healthcare (hospital/other health services)
(7) Better Business Systems (business consultants)
(8) Stillwater Mining (mining)
(9) St. Patrick Hospital (hospital services)
(10) Wells Fargo (banking)

Note: (1) The three largest Montana employers are public: Montana State Government (20,952 employees), Montana Local Government units (47,390 employees) and the U.S. Government (12,642 employees). Information based on 1st quarter 2005 data.

Source: Montana Department of Labor and Industry

(The Treasure State)
"Big Sky Country"
MISCELLANEOUS STATISTICS
June 30, 2005

Date of Statehood (a)	November 8, 1889 - 41st state
Form of Government (b)	Legislative-Executive-Judicial
Land Area - 4th largest state (a)	145,552 square miles (c)
Population Density (based on 2000 population) (c)	6.2 persons per square mile
Miles of Paved Public Roads (d)	19,348
Public Higher Education (e):	
Colleges and Universities	6
Colleges of Technology	5
Recreation (f):	
Number of State Parks	50
Number of Managed Sites (camping/fishing)	362
Number of National Park System Units	8
State Employees (full-time equivalent) (1) (g)	20,017

Note: (1) Effective with fiscal year 2004, number of state employees includes all public higher education employees, regardless of funding source.

Source: (a) Montana Facts (Travel Montana website)
(b) Montana Code Annotated
(c) U.S. Department of Commerce, Bureau of the Census
(d) Montana Department of Transportation
(e) Montana Commissioner of Higher Education
(f) Montana Department of Fish, Wildlife & Parks
(g) State of Montana Office of Budget and Program Planning, Montana Commissioner of Higher Education